

## DOCUMENT RESUME

ED 442 962

CE 080 370

AUTHOR West, Anne; Sparkes, Jo; Balabanov, Todor  
TITLE Demand-Side Financing--A Focus on Vouchers in Post-Compulsory Education and Training: Discussion Paper and Case Studies. CEDEFOP Dossier.  
INSTITUTION European Centre for the Development of Vocational Training, Thessaloniki (Greece).  
ISBN ISBN-92-828-9500-9  
PUB DATE 2000-04-00  
NOTE 77p.; With contributions from Sarah Elson-Rogers.  
AVAILABLE FROM CEDEFOP, P.O. Box 22427, GR 55102, Thessaloniki, Greece, Fax: 30 31 49 01 02, E-mail: dw@cedefop.eu.int, Web site: <http://www.cedefop.eu.int/publications.asp> (6003 EN). For full text: [http://www.trainingvillage.gr/etv/publication/download/panorama/6003\\_en.pdf](http://www.trainingvillage.gr/etv/publication/download/panorama/6003_en.pdf).  
PUB TYPE Reports - Research (143)  
EDRS PRICE MF01/PC04 Plus Postage.  
DESCRIPTORS Adult Programs; Comparative Analysis; Definitions; Educational Demand; \*Educational Economics; \*Educational Finance; Educational Policy; Educational Practices; \*Educational Vouchers; Foreign Countries; Government School Relationship; \*Job Training; Literature Reviews; Models; Pilot Projects; Postsecondary Education; Public Education; Public Policy; School Business Relationship; Secondary Education; Special Needs Students; \*Vocational Education; Youth Programs  
IDENTIFIERS \*Demand Side Financing; \*European Union; United States

## ABSTRACT

The use of demand-side financing mechanisms and vouchers for postcompulsory secondary-level education was examined through case studies of funding practices in the following countries: Austria; France; the United Kingdom; the United States; and Wallonia (the French community of Belgium). Different models of voucher use were identified in the countries studied. "Pure" vouchers with a paper coupon were found in a minority of cases (in parts of France and England/Wales). In Austria, training accounts co-fund various types of adult learning by providing funding in arrears rather than in advance of training undertaken, which eliminates the purchasing power apparent with vouchers and quasi-vouchers. The aims and targets of the various voucher and quasi-voucher schemes varied considerably. In the United Kingdom, trainees with special needs received vouchers with higher face values (to avoid the "cream skimming" that may be encouraged by flat-rate vouchers). Voucher and voucher-like schemes were found to have considerable potential to promote lifelong learning and to increase investment in training. The case studies further established that voucher and voucher-like schemes are highly flexible mechanisms that can be designed differently to meet a diverse range of economic, social, and political objectives, depending on policymakers' objectives and priorities. (Contains 54 references.) (MN)

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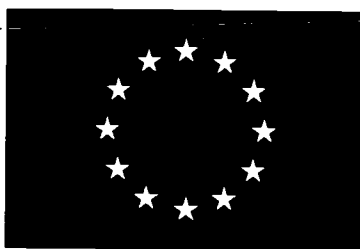
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# **Demand-side financing – a focus on vouchers in post-compulsory education and training: discussion paper and case studies**

carried out by:

Dr Anne West and Ms Jo Sparkes  
The Centre for Educational Research  
London School of Economics and Political Science  
Houghton Street  
London WC2A 2AE  
United Kingdom

Dr Todor Balabanov  
Institut für Höhere Studien  
Stumpergasse 56  
A - 1060 Wien  
Austria

with contributions from Sarah Elson-Rogers, CEDEFOP

April 2000

on behalf of  
CEDEFOP – European Centre for the Development of Vocational Training

Edited by Sarah Elson-Rogers under the responsibility  
of Stavros Stavrou, Deputy Director – CEDEFOP

Thessaloniki 2000

Published by:  
CEDEFOP – European Centre for the Development of Vocational Training  
Europe 123, GR-57001 THESSALONIKI (Pylea)

Postal address:  
PO Box 22427, GR-55102 THESSALONIKI

Tel. (30-31) 490 111

Fax (30-31) 490 020

E-mail: [info@cedefop.eu.int](mailto:info@cedefop.eu.int)

Homepage: [www.cedefop.eu.int](http://www.cedefop.eu.int)

Interactive website: [www.trainingvillage.gr](http://www.trainingvillage.gr)

The Centre was established by Regulation (EEC) No 337/75 of the Council of the European Communities, last amended by Council Regulation (EC) No 251/95 of 6 February 1995 and Council Regulation (EC) No 354/95 of 20 February 1995.

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://europa.eu.int>).

Cataloguing data can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 2000

ISBN 92-828-9500-9

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*Printed in Belgium*

# Foreword

In the European Commission's White Paper 'Growth, Competitiveness and Employment' (1994) explicit reference is made to training vouchers:

It is important to set up generalised and versatile systems of 'training credits' ('training vouchers') which all young people would receive and could spend relatively freely throughout their working lives in order to obtain new knowledge and to update their skills. Such systems already exist in certain Member States, but are limited in their scope and target population (p. 138).

The White Paper also notes that more ambitious schemes should be examined and developed on the basis of models that are best suited to national cultures. This discussion report is the outcome of a pilot study to assess the use of vouchers to fund different types of training within the European Union. It discusses issues related to the use of vouchers and voucher-like mechanisms to fund or part-fund individuals to participate in vocational education and training (VET). The focus is on post-compulsory secondary level education and training, as opposed to compulsory or higher education. Post-compulsory secondary level education and training includes initial and continuing training both work and non-work related. The report comprises:

**Chapter 1:** a discussion of the policy context in which demand-side financing mechanisms and vouchers for post-compulsory education and training have been introduced and the rationale, principles and operation of voucher and voucher-like mechanisms.

**Chapter 2:** case studies of the ways in which demand-side financing mechanisms such as vouchers have been introduced in several countries, both inside and outside the EU, predominantly, but not only, using public funds.

**Chapter 3:** this concludes the dossier with a summary bringing together the major parts of the report and presenting implications for policy and practice within the European Union.

The information was obtained from a number of sources. Anne West and Jo Sparkes (London School of Economics and Political Science) prepared the discussion on demand-side financing mechanisms and vouchers and the case studies for England and Wales, France and the USA.

The discussion of demand-side financing was informed by a variety of academic and policy reports. The case study information for the UK was gained from the Department for Education and Employment (DfEE) and included independently commissioned evaluations. Additional material was obtained from various social science journals and other publications. Information on a privately-funded voucher scheme operated by Ford was obtained from the company.

The Austrian case study, prepared by Todor Balabanov (Institute for Advanced Studies in Vienna) was carried out in cooperation with the provincial government of Lower Austria and the scientific community working in the field of VET. Information was also obtained from Professor Wiedemair (Salzburg), Mag Leitner (IAS), Dr Klaus Schedler (Qualification and Training Institute of Austrian Industry) and Dr Herwig Schmidbauer (WIFI).

For France, information was gained from *Centre Inffo* and from the *Association nationale pour la formation professionnelle des adultes (AFPA)*. For Wallonia (the French Community of Belgium), information was obtained from the *Cellule 'chèques-formation'*, part of *FOREM* (the Ministry of Employment and Vocational Training). For the US, information was obtained via the internet and then follow-up contact was made with Dr Burt S. Barnow of the Institute for Policy Studies at The Johns Hopkins University. We would like to extend our thanks to all those who enabled us to carry out this study. We would also like to thank Professor Dr Ulrich van Lith of the *Rhein-Ruhr Institute für Wirtschaftspolitik*, Cologne, who provided valuable comments to earlier drafts of this report.

As indicated within the report, the notion of a voucher is changing and encompassing a wider range of funding options and objectives. For this reason, the information gained will be furthered in a future Cedefop study on the use of demand-side financing mechanisms more generally throughout the European Union. While working on this report, it became apparent that demand-side mechanisms are becoming a more frequent funding tool in many areas of VET and for many different target groups. We would be grateful, therefore, if you could take the time to recommend other relevant case studies that could be included in a more in-depth study by contacting Cedefop (details below).

Cedefop has also published other discussion reports on specific issues related to VET financing. Each report is designed to provide a theoretical overview with examples of implementation. They include:

Felstead, A. (1998) Output related funding in vocational education and training: a discussion paper and case studies, ISBN 92-828-4388-2, Thessaloniki: Cedefop.

Frederiksen, Jens V. & Westphalen, Sven-Åge (1998) Human resource accounting: interests and conflicts, A discussion paper, ISBN 92-828-3334-8, Thessaloniki: Cedefop.

Forthcoming reports include a discussion on the different funding mechanisms used to support continuing training in small and medium-sized enterprises and on new systems of public management within training.

Other Cedefop work on VET funding includes a series 'financing portraits' which are being prepared for each Member State. If you are interested in any of the aforementioned discussion reports or would like the financing VET portrait for any EU Member State, please do not hesitate to contact Cedefop at the address below.

Sarah Elson-Rogers  
Project Manager  
P.O. Box 22427  
GR-55102 Thessaloniki, Greece  
Fax: 00 30 31 490 117  
Email: [ser@cedefop.eu.int](mailto:ser@cedefop.eu.int)

Stavros Stavrou  
Deputy Director

Thessaloniki 1999

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# **Chapter 1 Vocational education and training, demand-side financing and vouchers: a discussion**

## **1.1 Introduction**

Across the European Union, Member States are facing the challenge of creating and meeting increasing demand for education and training in an environment of scarce financial resources and rising training costs. The pressures of structural economic change, technological advancement and increasing global competition provide a compelling rationale for investment in human capital.

Investment in education and training has economic and other benefits for the individual, for businesses and for society at large. To the extent that education and training raise an individual's earnings, the tax payments that she or he makes increase, so benefiting the government and society. There may be production benefits if education and training not only make an individual more productive but also contribute to the productivity of others; 'individuals may become more adaptable and better able to keep up with technological change' (Barr, 1984, p. 341). Cultural benefits, such as social cohesion may also accrue.

Both governments and enterprises have recognised these benefits and many have increased their investment in vocational education and training (see Coopers & Lybrand, 1996 and the individual financing portraits for the Member States of the EU produced by Cedefop). Furthermore, both individual countries and the European Commission have stressed the importance of lifelong learning.

The funding systems for vocational education and training, and access to them, vary across Member States of the European Union. In the case of initial vocational training and training for unemployed people, access is generally guaranteed by governments by means of funding often linked with provision. Other types of training, such as continuing training for those in employment and adult education, may not attract government guarantees for provision but may be characterised by mixed public/private funding or by private funding alone. For training provided within the public sector, the concept of accessibility relates mainly to the amount of provision and concerns about equity. In mixed, publicly and privately-funded, training markets accessibility often relates to the ability of individuals (and enterprises) to identify and fund their own training requirements.

Given the pressure on public resources to finance both existing and additional education and training programmes and an emphasis on lifelong learning for all, a number of Member States are reviewing their financing systems for the public provision of training as well as considering policy options to stimulate lifelong learning. For publicly-funded training, governments with different political imperatives are seeking both to improve the efficiency and effectiveness of provision (although this does not necessarily imply less funding) and to increase demand. Furthermore, many governments are also attempting to

stimulate the demand for training amongst the general population or for certain groups partly through the use of financial incentive mechanisms.

It is not just governments that are reconsidering their approach to training and how to finance it; some private companies also recognise the potential benefits of creating more training opportunities for their workforce and are designing funding mechanisms to support this.

The existence of different training markets between and within Member States in terms of individual entitlement to training and funding creates a complex scenario for a theoretical discussion on the rationales and principles of financing policies. For the purposes of this report, the discussion focuses on: training for which there is a government guarantee for provision and/or funding, training for which there is a part-guarantee, training in private training markets as well as a short discussion on lifelong learning.

## **1.2 Background to demand-side financing policies**

### **1.2.1 Government guarantee to fully-funded training**

The structure of public service provision generally has been the subject of ongoing debate including within the training sector. Traditionally, public sector training provision has been characterised by a system of monopolistic providers attended by individuals with an entitlement to follow a training programme. This provision has often been funded on supply-side criteria; i.e. giving budgets to suppliers on the basis of historical or administrative factors.

While such a structure and funding system can protect certain principles of public provision, it may be at the expense of restricting individual choice of training course and training provider. Furthermore, there is no explicit incentive for the providers to deliver the most efficient and appropriate service tailored to individual trainee needs or to fulfil value-for-money and efficiency criteria for public expenditure. The issues as to whether the principle of individual choice and the potential for inefficient training provision is actually affected by traditional structures of public provision has been much debated. As Osborne and Gaebler (1992) note:

‘The single best way to make public service providers respond to the needs of their customers is to put the resources in the customer’s hands and let them choose...If the customers do not have a choice of provider – schools, training programs, motor vehicle offices – they remain dependent on the good will of the provider.’

In contrast to traditional supply-side funding mechanisms, demand-side financing is a method whereby funds are given to individuals or institutions on the basis of expressed demand. Thus, money follows, or is given to, consumers (e.g. students, trainees, an enterprise or social partner group). According to the World Bank (1997) part of the conceptual framework of demand-side financing is the issue of choice, with the focus being on the individual demands of the training consumer (individual or organisation). The calls for ‘choice’ at least in the context of publicly-funded education ‘are usually directly

related to efforts to improve educational outcomes' (Patrinos & Ariasingam, 1997). They also note that: 'To many, demand-side financing is a pragmatic choice for introducing needed reforms according to local needs and resources' implying that the motives for this type of funding mechanism vary.

The introduction of demand-side financing mechanisms into public sector provision has been, in some cases, explicitly linked to the introduction of market principles into education and training systems and the deregulation of training supply. In certain countries a 'purchaser-provider' split has been introduced. Under this principle, the government (or its agencies) purchases a service from accredited training providers on behalf of 'consumers', rather than providing the service itself. Per capita funding ensures that the training provider receives funds on the basis of expressed demand from trainees. In essence, whilst the funding is kept on the supply side, trainee choices are driving the total budget that suppliers receive. Trainees may be provided with greater choices and the number of training providers and training course options may be increased.

Governments (or their agencies), in other words, have a choice of how to purchase (in full or in part) training on behalf of consumers i.e. how to distribute the available funding. They can opt to transfer the funds in the form of cash *directly* to the consumer or *indirectly* through purchasing the training from training providers on the basis of the consumers' expressed demand.

*Indirect* demand-side funding mechanisms include funding training providers on the number of trainees recruited and/or on time spent in training (per trainee/unit funding) on the basis of an open enrolment policy. *Direct* demand-side funding mechanisms, which transfer cash to individual trainees, include grants to individuals for education/training and guaranteed loans for education/training.

Both types of mechanism primarily aim to increase choice for the trainee through competition on the supply side and to stimulate demand through empowering the individual to make their own training choices. A further demand-side funding mechanism combines the two approaches: a voucher scheme. A voucher transfers purchasing power without actually transferring money, as funds are paid to the training provider. Earmarked funds are allocated to individuals that he/she uses to purchase training while the training providers receives unit funding for trainees on submission of the voucher.

### **1.2.2 Government guarantee to part-fund training**

Most public sector training provision is guaranteed up to a certain age or level of achievement and is targeted at specific groups. Beyond that age or level the situation changes, as Glennerster (1991) notes:

'the balance between private benefits and the public good has shifted by adulthood. The aim of public policy is to ensure that individuals invest optimally in their own human capital and have the resources to do so.'

The question remains, however, as to what kind of 'public policy' can fulfil this aim in a period where the resources available to finance additional education and training programmes have come under increasing downward pressure. Where there is no

guarantee for individuals (or enterprises) to gain access to publicly-funded education and training there are a number of potential demand-side obstacles that may lead to under-investment, these include:

- (a) labour market imperfections. If individuals (or enterprises) have to fully fund their education and training, they may be reluctant when the benefits will accrue to another party (externalities); this might happen, for example, if further training does not lead to improved salary levels due to labour market inflexibility;
- (b) capital market imperfections. The ability of individuals (or enterprises) to fund their own training may be hindered by the operation of the commercial market for capital. First, not all individuals have access to the capital market and/or may be viewed as a bad risk. Second, training is an uncertain investment due to the intangible nature of many of the benefits (human capital cannot be used as security on a loan) and the timeframe over which they accrue;
- (c) inequalities. For example, the existence of income inequalities may prevent some groups from accessing training due to an inability to pay. Other inequalities include knowledge, whereby certain groups do not have access to advice on training opportunities and may not know that their participation (maybe of a certain type) would be of benefit.

All of these obstacles can lead to underconsumption and underinvestment in training. Most Member States recognise the need for continued public support for training generally on the assumption that they gain net benefits from additional investment. Rather than increasing guaranteed access to publicly-funded training, support measures in some countries are becoming more targeted at solving specific demand-side financing obstacles, such as those listed above, through designing demand-side financing policies or by targeting specific groups to have full access to public provision and/or funding.

Given that resources are limited, demand-side financing mechanisms for these types of training aim to stimulate demand, increase access and to create a mechanism whereby the costs of training are shared. There are a range of options as to how to publicly part-purchase training on the basis of creating a *financial entitlement* to attend training – for example, vouchers to part-fund individuals (or enterprises), individual training/learning accounts, grants, etc. In each case training choices can be made by the consumer (individual or enterprise) in order to actively engage them in the learning process. In all cases, funding is monitored and providers regulated.

### 1.2.3 Private training markets

Whilst the focus of this report is mainly on demand-side financing mechanisms in relation to the distribution of *public* funds, the same general principles apply to *private* funds targeted at individuals (or other training consumers) to choose their own education and training courses. Demand-side mechanisms, such as vouchers, can be used by any funding body purchasing training on behalf of an individual/organisation on the basis that

they can choose their own training paths. So, for example, an enterprise that wishes to encourage employees to participate in training through offering financial incentives and assistance is the purchaser whilst the employee would be the consumer of the training.

#### 1.2.4 Funding lifelong learning

'Lifelong education is ... the overall objective ... each country should be aiming towards universally accessible advanced vocational training' (European Commission, 1994, pp. 15-16).

As yet there is no uniform definition as to what constitutes lifelong learning. Some Member States interpret the notion as encouraging more continuing learning amongst the general population and are providing more opportunities for part-funding. Others have defined training targets in terms of percentages of the population reaching different levels of education/training.

More ambitious proposals include designing a more seamless structure; the Hans Böckler Foundation Committee of Education Experts has recommended that 'initial vocational training, university studies and further training be integrated into an overall system of lifelong learning' (p. 3). This would allow all individuals to be entitled to a minimum amount of learning (beyond compulsory schooling) which can be taken up throughout their lives and funded by government. If all individuals are allowed to choose when to take their training entitlement and their training paths then a policy mechanism is needed that can adjust to all individual situations. The Hans Böckler Committee of Education Experts (1998), Oosterbeek (1998) and van Lith (1983, 1985) have both proposed the use of vouchers together with loans as one such mechanism.

#### 1.2.5 Summary

Demand-side financing mechanisms, therefore, can channel public or private funds to individuals and/or other bodies. Depending on the funding agency, the type of training and the target group, the amounts transferred may represent the full cost of the training or part costs. As has been mentioned, usually where funds are public, the financing is to deliver on a *government guarantee* i.e. there is an entitlement to fully-funded education or training. Where there is no government guarantee and public funds are involved, demand-side financing mechanisms that involve co-funding by an individual or employer, may be introduced.

The rest of this chapter discusses the potential use of vouchers as a demand-side financing distribution mechanism. It is important to note that many issues outlined below are raised in the context of vouchers although many also relate to other demand-side financing policies.



### 1.3 Vouchers: definitions

In its 'purest' form, an education or training voucher<sup>1</sup> is an earmarked payment made to a training consumer for use at the education or training institution of their choice. As noted by Patrinos and Ariasingam (1997) there are a 'host of different definitions of vouchers' (p. 5). A selection of definitions are outlined in the box below.

A document which can be exchanged for goods or services as a token of payment made or promised by one holder or another (Thompson, Della, ed., *The Concise Oxford Dictionary of Current English*), Ninth Edition, Oxford: Clarendon Press, 1995).

A certificate useable in place of money, but only for a specific purpose. It has been proposed, for example, that parents or guardians should be issued with education vouchers to cover the cost of educating their children. It is claimed that such a system could combine the advantages of universal state funding of education with competition in its provision. The point of using vouchers rather than simply paying out money is to avoid the money being diverted to other purposes. (Black, John, *Oxford Dictionary of Economics*, Oxford: Oxford University Press, 1997.

Vouchers are a means of in-kind redistribution. They transfer purchasing power while restricting the individual's spending decision, for example, education vouchers must be spent on education. A great variety of such schemes have been proposed. They differ as to whether the value of the voucher is related to the recipient's income or in the extent to which the recipient's income may be added to the voucher and so on. It is suggested that they are a way of increasing consumer sovereignty in areas like education and health care. (Pearce, David W., General Editor, *Macmillan Dictionary of Modern Economics*, London: Macmillan, 1992).

Education voucher:

A coupon of prescribed purchasing power that can be 'cashed' at any school whatever and that can be topped up like a book token or luncheon voucher (Blaug, 1984, p. 160)

A voucher is a cash payment given by (in most cases) a public entity directly to students. (Patrinos, H. A. & Ariasingam, D. L., *Decentralisation of education: Demand-side financing*, Washington: The World Bank, 1997, p. 19)

The essence of a voucher is of a contract providing an individual (or another legal entity) with purchasing power, without an actual monetary transfer. This is seen as a means of 'enhancing consumer sovereignty' (Oosterbeek, 1998, p. 226) through transferring the power, although not the actual funds, to purchase training. The voucher covers the costs, in full or in part, of the chosen education and training. As Oosterbeek (1998) notes:

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<sup>1</sup> It is important to note that the term used in other languages does not necessarily translate literally. In French for example, vouchers are referred to as 'chèques' (cheques).



'If a person collects a voucher to attend a specific programme, the government is obliged to pay a pre-determined amount of money to the institute that offers the programme' (p. 233).

Similarly, with privately-funded voucher schemes, there is an obligation on the organisation funding the scheme to pay a pre-determined amount of money to the training provider chosen by the trainee.

More commonly we find mechanisms that we refer to as 'quasi-vouchers'. Some quasi-vouchers schemes are more akin to pure vouchers than others, but there is deviation from the 'pure' model. For example:

- (a) A quasi-voucher may not be a coupon but a 'smart card' or other similar device representing an 'entitlement' to education and training but without a specified financial value;
- (b) A pure voucher will have a nominal (monetary) face value. In contrast a quasi-voucher may have a nominal value in terms of the number of training weeks/hours of training or have no nominal value – in which case it serves more as a straightforward 'entitlement' to education/training;
- (c) A quasi-voucher may not be able to be exchanged *directly* in exchange for training services. Rather, it may have to be validated by the purchaser of the education or training (government agency or enterprise) before the individual can exchange it for an education or training programme;
- (d) While a pure voucher is a coupon with a financial value that is specified, a quasi-voucher may be a cash amount given to an individual that is earmarked for expenditure on education and training.

In addition to vouchers and quasi-vouchers there are a range of other demand-side financing mechanisms which, although they do not share all the attributes of vouchers, do share some.

Most of the existing literature on the use of vouchers for educational purposes has focused on their use in compulsory education – particularly in the US – where the debate has tended to focus on equity consequences and their use in private schools (see for example, Levin, 1996; van Lith, 1983; Witte & Thorn, 1996). Other studies have examined the use of vouchers in pre-school education in England (e.g. Sparkes & West, 1998). In many key ways, post-compulsory education and training provision differs from compulsory education. In the post-compulsory secondary sector, training may be further classified into: initial vocational education and training (IVT); continuing vocational training (CVT); adult learning (work or non-work related); training for the unemployed (UVT)

In general, governments play a key role in relation to IVT and UVT, but less of a role in CVT and adult learning. Whilst this classification is useful – particularly in the context of EU training policy – it does not necessarily reflect the situation in all countries (for example, there may be no clear distinction between vocational and general education or between initial and continuing training). Interestingly, the notion of a voucher provides the potential for all individuals to be endowed with the right to participate in education and

training throughout their life – so that they can reach a particular, pre-determined level of qualification for example. This view has been espoused by Levin (1983) who argues that vouchers should retain their real value during the entire lifetime of the owner. 'This implies that initial schooling and lifelong learning are treated as equivalents' (Oosterbeek, 1998, p. 233).

## **1.4 Principles and objectives of voucher schemes**

In this section, we focus on the broad overarching aims of vouchers and quasi-vouchers. Then we discuss the more specific objectives associated with such schemes for education and training for which there is a government guarantee (i.e. when an individual is entitled to attend an education or training programme that is fully funded by the government) and for which there is no such guarantee. This section also discusses the use of vouchers in the private sector, where enterprises fund or part-fund their employees to participate in training. The principles of vouchers in the context of lifelong learning are also discussed.

### **1.4.1 Vouchers for education and training with a government guarantee to fully-funded training**

According to West (1996) who produced 'A World Survey' of education vouchers for the World Bank, four principles can be singled out to explain the attempted objectives of vouchers:

- (a) consumer choice;
- (b) personal advancement;
- (c) promotion of competition;
- (d) access to private education and training providers.

Whilst West's survey focused on vouchers in publicly-funded compulsory education, these principles extend to quasi-vouchers and voucher-like mechanisms for vocational education and training where there is a government guarantee for education and training. This is the case with initial vocational education and training and training for certain groups of unemployed people. In some countries, this guarantee extends to continuing vocational education and training and adult education, for example in those countries guaranteeing an individual's access to, and funding for, training leave.

#### **(a) Consumer choice**

In post-compulsory education and training that is fully funded by the government, consumer choice relates to the individual's choice. On the basis of information provided, individuals are empowered to make informed choices to meet their training needs in terms of the most appropriate training provider and course. Under a voucher plan, government supports the consumers of education and training, rather than the providers. As a result of consumer choice, the mobility of trainees may increase through having a wider range of training options.

(b) Personal advancement

In terms of personal advancement, West (1996) claims: 'People want to shape their own destinies' (p. 3). Creating the opportunity for and empowering individuals to choose their own training paths is based on the assumption that this will stimulate interest, participation, enthusiasm, and dedication.

(c) Promotion of competition

Under a voucher scheme, trainees determine the funding of training providers through their enrolment pattern. Where trainees have a free choice of provider, voucher schemes may result in competition so, in theory, increasing choice. As noted by Glennerster (1996): 'All monopolies tend to exploit the consumer who cannot object to what he or she is offered' (p. 128). West (1996) asserts that: 'Vouchers present a challenge that can lead to competition which brings lower costs, increased average quality and dynamic innovation' (p. 3). As a result of increased competition, vouchers should lead to training providers tailoring their courses more closely to trainee needs and requirements. A basic condition for this is a training market open to new providers.

(d) Wider access to private education and training

Wider access to private education and training providers may also ensue from voucher schemes if public provision is complemented by other providers entering the market. This may lead to lower unit costs and providers may also be better able to adapt to changing education and training needs. This, in turn, should enable voucher holders to realise their preferred training routes.

In addition to the factors outlined by West (1996), other principles may be promoted by voucher schemes. One is that funding transparency may be increased. Costs may become more transparent to funding bodies, providers and to consumers. The latter may lead to a greater appreciation of the value of learning. For the funding body, transparency could lead to more accountability in the use of public funds.

As a result of these factors, proponents of voucher schemes claim that they will serve to make the education and training system: 'more efficient, improve quality, increase access and enhance equity' (Patrinos & Ariasingam, 1997, p. 5).

As noted earlier, other demand-side financing mechanisms may also promote some of these principles. Furthermore, achieving these principles relies on certain prerequisites (see 1.5.2).

#### **1.4.2 Vouchers for education and training with government part-funding**

A different set of factors comes into play when considering vouchers for training where there is no government guarantee, i.e. where the voucher acts as a financial entitlement and incentive to train. Examples include adult education and training undertaken by individuals on their own initiative or through their employer. For instance, in the case of a government (central, regional or local) funded scheme where there is no guarantee to fully-funded training but part-funding is available, the government may wish to encourage the acquisition of particular skills (e.g. where there are skill shortages, computing skills, foreign language skills, etc.). It may also wish to try and ensure that individuals from

disadvantaged groups are accepted onto training programmes in order to promote social cohesion and/or to reinforce a particular policy (e.g. active labour market policy). To achieve any of these objectives, funds in the form of vouchers could be targeted at certain groups or particular types of training, or a voucher could be used as an incentive to encourage funding from other sources. In such cases, the following objectives are particularly important:

- (a) stimulating the demand for training;
- (b) increasing investment in training;
- (c) overcoming market failure;
- (d) making the market fairer.

(a) Stimulating demand for training

Vouchers can act as a financial incentive for individuals to participate in training. Vouchers in this context act as a subsidy to training, the level of which will have an effect on the ability to stimulate demand. As vouchers are aimed at individuals, rather than training providers, the subsidy can be means-tested. Furthermore, as the voucher is given to the individual the issue of empowerment may also be relevant in increasing participation. This may reduce underconsumption and have external benefits. In theory individuals (and therefore the workforce) should become more adaptable through training with positive consequences for enterprises, the economy and society.

(b) Increasing investment in training

With rapid technological change, increased investment in training is important. Pressures on public expenditure across Europe mean that greater investment needs to be made by individuals and enterprises (see European Commission, 1996). Such investment is important in the context of government policies aimed at promoting lifelong learning. As a training incentive mechanism given to individuals, vouchers representing part-training costs may lever in funding from other sources.

(c) Overcoming market failure

There are opportunities for market failure that vouchers and voucher-type mechanisms can endeavour to address. By targeting vouchers on particular individuals or types of enterprises, participation in education and training may increase, so increasing the external benefits of education and training. For example, small and medium-sized enterprises may experience capital market imperfections in gaining finance for training purposes – arising because they find it harder to borrow money than larger businesses – which may be overcome. In the same way, resources can also be targeted towards certain types of training for skills or qualifications where there is short supply.

(d) Making the market fairer

Some disadvantaged groups may not have the resources available to finance training themselves and so governments may support education and training in a targeted way (e.g. on disadvantaged groups) in order to make the market fairer. In terms of vouchers, this can mean linking the value of the financial entitlement to the income level of the recipient to ensure access to training irrespective of the social situation of the individual.

### **1.4.3 Privately-funded vouchers for education and training**

Companies that support their employees in training which is not necessarily related to the workplace and which employees can choose themselves are likely to have a different set of aims. These may include (see Maguire, 1996):

- (a) enhanced productivity of staff;
- (b) reduced labour turnover and absenteeism;
- (c) a more highly skilled workforce;
- (d) a more flexible workforce;
- (e) improved industrial relations;
- (f) increased levels of personal development;
- (g) greater motivation, loyalty and enjoyment of work.

As noted by Maguire (1996) there is a lack of evidence to substantiate that such schemes achieve these aims. Parsons et al. (1998) report a range of benefits, on the basis of a survey of employers who had implemented such schemes, these benefits included: the creation of a more motivated and flexible workforce, increased skill levels, development of employees' confidence about learning and a sense of teamwork. Furthermore, Parsons et al. (1998) found that these schemes could also be 'effective in engaging the "learning poor" in learning – that is those who have low qualification levels'.

Funding such training through a voucher scheme also includes many of the potential benefits outlined earlier, such as the ability for personal advancement through stimulating the demand for training, allowing consumer choice, and access to a wider range of training providers.

By-products for governments of privately-funded voucher schemes include stimulating the demand for training and increasing investment in training. Such schemes also have the potential to overcome market failure and make the market fairer.

### **1.4.4 Vouchers and lifelong learning**

Two recent proposals have been made for the use of voucher and related demand-side mechanisms in the context of policies of lifelong learning. These have been made by Oosterbeek (1998 – this scheme is based on proposals made by Levin in 1983) and by the Hans Böckler Foundation Committee of Education Experts. In both cases, the proposals focus on the use of voucher and quasi-voucher mechanisms, along with other demand-side financing mechanisms (loans and 'education savings accounts') to fund learning throughout life up to a certain educational level.

Within both schemes, individuals could choose their own education and training paths, the most suitable provider and when to undertake the learning. As the proposals cover training for which there is a government guarantee and part-guarantee, all of the principles outlined above are relevant. Other objectives cited within the proposals include:



- (a) creating more open access to training;
- (b) more recognition of income and training inequalities;
- (c) redistributing the training process across lifetimes;
- (d) treating all post-compulsory education and training equally.

(a) Creating more open access to training

Within both proposals all individuals would have access opportunities which were not dependent on age or income. On the supply side, according to Oosterbeek (1998) new courses would be offered aimed at those who do not currently enrol in post-compulsory education/training. These individuals would possess vouchers presenting potential purchasing power. Part-time learning would also be better catered for.

(b) More recognition of income and training inequalities

Both schemes highlight the need to ensure that vouchers retain their value over a long period of time in order that those who choose to train later in life can access the same quantity of education/training. Under the model proposed by Oosterbeek individuals with lower abilities could be provided with vouchers of a higher value (see also Jencks et al., 1970). Additionally, a voucher may consist of a mixture of a loan and a grant; the composition could vary with the type of training and certain student characteristics, for example, vouchers with larger grant components could be given to low income students. Oosterbeek notes that 'under a voucher system, the highly-educated workers will have used all their entitlements to initial schooling and have no vouchers left when they enter the labour market. Lower-educated workers will have some vouchers left that they can use for training...' (p. 235).

In the proposal by the Hans Böckler Foundation Committee of Education Experts every individual would have an education account with contributions from various sources on the basis of certain principles outlined below.

- (i) The individual, his or her family or 'third parties' would contribute to the account (this would not be obligatory but the government would provide tax incentives – the lower the income, the higher the incentive). Below a certain income level, tax incentives would be replaced by direct state subsidies to the account.
- (ii) The state would pay regular education subsidies to the account, graded according to the social situation of the account holder.
- (iii) The state would credit the account with 'acquisition rights' for vouchers for education/training vouchers up to a specified level.
- (iv) The state would guarantee the account holder's right to receive loans via the education account at preferential interest rates. These loans could only be used for education or training and would be repayable on completion of training (the level or repayment would depend on the individual's income level).

#### **(c) Redistributing the training process across lifetimes**

Both proposals would encourage the notion of lifelong learning by redistributing the learning process across an individual's entire lifetime. The proposals by Oosterbeek are premised on vouchers retaining their real value during the lifetime of the owner, so enabling the individual to choose when to spend the voucher entitlement.

#### **(d) Treating all post-compulsory education equally**

By funding lifelong learning as a whole through a voucher mechanism, individuals would not face any differences in their entitlements whether their chosen learning path was through university or vocational training institution. Treating academic and vocational paths equally is central to the proposals of the Hans Böckler Committee.

### **1.4.5 Summary**

From the above, it can be seen that vouchers are a flexible mechanism which aim to achieve a number of different objectives. For publicly funded training, the main objectives are to distribute funding in a way which stimulates demand through empowering individuals to make their own training choices and enabling training providers to respond to individual preferences. For publicly part-funded training, the main objectives include creating a fiscal stimulus to increase the demand for training generally, for certain types of training and/or target group and to encourage co-investment. For lifelong learning, key objectives include creating a more seamless education and training system whereby all education and training is treated equally and where individuals can choose when to participate independently of their status in terms of age, employment, finances etc. For privately funded training, the objectives are more diverse. As with all policies, the design of any voucher scheme will affect how far these objectives are met.

## **1.5 Operation of voucher schemes**

In this section of the report, key parameters, prerequisites and potential disadvantages of voucher schemes are discussed in a general context rather than in terms of training within different markets. Most of the issues outlined below are relevant to vouchers within all training markets; where particular aspects are specific to certain markets, they have been raised in the text.

### **1.5.1 Key parameters**

In funding post-compulsory education and training through a voucher scheme, there are a number of fundamental parameters (many of them inter-related) that are important to their operation (see also Blaug, 1984; van Lith, 1985). These parameters form the operational framework for vouchers, although the design of the scheme will depend on the aims of policy-makers. Some key parameters include:



(a) Target groups and eligibility

Voucher schemes for financing vocational education and training may be targeted on a range of different groups, including:

- (i) young people in post-compulsory education or training;
- (ii) employees who wish to undertake continuing vocational training (may be targeted on specific skill areas);
- (iii) employees working in certain enterprises (e.g. small and medium-sized enterprises, those in certain sectors etc.);
- (iv) adults who are currently out of the labour market and wish to enter it (e.g. women returners);
- (v) adults who are employed who wish to re-train;
- (vi) adults who are unemployed who wish to re-train to gain employment (may be targeted on specific fields of training);
- (vii) adults who wish to increase their skill levels for work-related and/or personal reasons.

Given the notion of lifelong learning, a voucher scheme could in theory be targeted at all of the above listed groups (see for example the proposals by Oosterbeek (1998) and Hans Böckler Foundation Committee of Education Experts (1998). It is also possible to identify an additional set of target groups. This is the case where a government chooses to target funds for training on enterprises, which are used for training employees. In the same way funds can also be targeted at social partner organisations.

If it is targeted at a large group of individuals, eligibility to the voucher may be universal or means-tested.

(b) 'Currency' of the voucher

The voucher may be in the form of a specified monetary value, the number of training hours/weeks or to enable the individual to achieve a certain level of education or training or a specified qualification. In the case of lifelong learning, the currency of the voucher would need to take into account inflation (if it has a monetary value) or changes to the education and training system (e.g. if the entitlement to a specified level of qualification changes).

(c) Supplementable or of a fixed value

Where there is a government guarantee to fully-funded training a voucher would, in general, represent a fixed value representing certain training costs or training entitlement. Where only part-funding is available, a voucher would represent a monetary value which could be supplemented (although depending on the training choices, this value may represent a different proportion of the training costs). Where a

voucher can be supplemented there may be equity implications in terms of who is able to benefit from post-compulsory education and training. On the other hand, a voucher covering a proportion of the costs may be a way to 'lever in' money from other sources, such as private household income or an individual's employer. One way to try and combine the need to overcome equity implications with leveraging in other finance is to use vouchers in combination with another demand-side financing mechanism such as loans and grants (Hans Böckler Foundation Committee of Education Experts, 1998; Oosterbeek, 1998)

(d) Higher value for specific target groups

A voucher that has a higher face value for those from disadvantaged groups (such as those with special needs – physical or learning disabilities etc.) may act as an incentive for the provider to accept such an individual – whose training costs are likely to be higher – onto a programme. As noted earlier there are also benefits in terms of reducing market failure and making the market fairer.

(e) Inclusion of other non-training costs

A voucher that includes costs, such as transport and living costs, may be more equitable and may encourage more mobility and therefore allow for wider consumer choice. Furthermore, the voucher mechanism may not necessarily be used solely for the provision of training, but may also be used for a service related to training, for example, vocational guidance for the individual concerned.

(f) Format of the voucher

A voucher may be a coupon or a quasi-voucher such as a smart card, or it may involve a system allowing for the electronic transfer of funds from the purchaser of the training (e.g. government agency or enterprise) to the training provider.

(g) Payment of funds

The trigger for funds to be transferred to the training provider from the purchaser of the education or training can vary. For example, it may be once the individual trainee has enrolled, or has attended for a specified duration or has successfully completed the training (see Felstead, 1998 for a discussion on funding related to performance). The transfer of funds may be in instalments or in the form of a lump sum to the training provider.

(h) Portability of the voucher

The voucher may be used in only one region of a country or portable to other regions in the same country. In theory, the voucher could be portable across national boundaries. Portability can also apply to the ability of dissatisfied trainees to move with their voucher to a different training provider.

## 1.5.2 Prerequisites of voucher schemes

There are a number of prerequisites of voucher schemes if they are to be equitable, efficient and effective.

### (a) Information, advice and guidance

If training consumers are to be given the choice of their training path and their training providers, then they need to be able to make informed decisions. Information plays a crucial role in enabling individuals to make choices on the available alternatives. 'Suppliers' also need accurate information in order to plan their training provision and the resources that this will require. Levin (1983) proposes a special agency to collect, analyse and disseminate information. Such information would need to cover programmes available, certification, qualifications and expertise of personnel, costs and educational/training outputs (e.g. number of those successfully completing programmes). Van Lith (1983) proposes a decentralised information market with competing bodies providing locally relevant information.

For individuals seeking post-compulsory education and training, it is likely that information alone may be a necessary, but not a sufficient, criterion. Advice and guidance may also be needed to support an individual in choosing training and an appropriate provider as well as to advise on potential labour market opportunities on completion of the training programme. Thus a voucher system may need to build in such services for reasons of efficiency and equity.

### (b) Regulation

The introduction of market principles into the education or training system is likely to require some form of regulation or quality assurance mechanism to maintain standards. This is important for accountability purposes, particularly in relation to the use of public funds but is also likely to be the case in relation to the use of private funds. Indeed, West (1996) notes:

'Voucher initiatives that insisted on zero regulation would stand no chance of acceptance because ... the voucher plan would appear to authorize appropriation of "public" money to institutions not accountable to "public authorities"' (p. 6).

The accreditation of education and training providers is one example of necessary regulation (see Levin, 1996). Others might include inspecting the provision of training, standardising training curricula etc. Regulation directed at the rights of the individual could also be relevant e.g. claiming compensation if the trainee is dissatisfied.

### (c) Choice of providers and entry of new providers

The introduction of market principles into the education or training system requires individuals to be able to express their choice of training supplier and courses. In his review of Levin's (1983) voucher model for post-compulsory education, Oosterbeek (1998) notes:

'It is an important point that not only regular institutes for post-compulsory education are considered for accreditation. In principle, every supplier of an educational or training course can be considered for accreditation. This opens the door for new suppliers to enter the education market. Furthermore, by not restricting accreditation to the usual suppliers, the model allows for on-the-job<sup>2</sup> training programmes to be included in the voucher system' (p. 233).

(d) Administration of voucher schemes

Voucher schemes can provide considerable flexibility for individual consumers. This means that the funding body needs administrative systems in place to track these consumers and their training choices. Furthermore, with a wider range of training choices in terms of courses and providers, the quality of training may have to be monitored more closely through regulation as raised above, or through the payment mechanism of the voucher, for example, linking part to training outcomes. In the latter case, an administrative system needs to be in place to track payments. In the same way, if dissatisfied trainees can move from one provider to another, a tracking system is required.

### **1.5.3 Potential problems associated with voucher schemes**

Whilst vouchers have been advocated as a mechanism to improve equity, efficiency and transparency, there are a number of problems that have been identified (e.g. Coopers & Lybrand, 1996; West & Pennell, 1996). The following section discusses each of these in turn. It should be noted that these are potential problems not just with voucher schemes but with both demand and supply-side funding in general and depend on the design of the scheme.

(a) The deadweight/windfall effect

Voucher schemes may result in enterprise/household expenditure on education and training being substituted with public sector funds. In general, it is unlikely to be an issue where training is already guaranteed to be fully funded (although an exception is where the education or training is already paid for by the household e.g. in the case of private schooling). Where there is no guarantee, however, deadweight is likely to be an issue i.e. an individual may wish to use the purchasing power of the voucher to undertake a training programme that he or she may have taken anyway. The same situation may also arise when public funds are used to support training of those in work.

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<sup>2</sup> 'On-the-job' within the context of the article relates to employer-provided training.

(b) Administrative costs

As noted above, administrative costs may be high with voucher schemes compared with funding mechanisms that are not 'demand led'. This is because the idea is based on the use of a physical object, the voucher, which then must be passed around the education or training system between the issuer of the voucher, the consumer (trainee), the education or training provider and the body administering payments to providers. Tracking the use of voucher can, therefore, be complex. Furthermore, as voucher schemes highlight the issue of individual choice, there may be a greater number of training providers and more tailored courses that need to be taken into account in administering the payment procedure.

(c) Fraud

Because a single voucher will go through many hands there is concern that a 'black market' in vouchers could develop. However, in the case of education and training vouchers 'it is quite difficult to transfer (sell) the rights to the education obtained' (West, 1996, p. 3).

(d) Impact on equality of opportunity

The benefits of the voucher scheme may accrue to those on middle and upper incomes. This is particularly the case if individual consumers are allowed to supplement the vouchers with their own funds. Even in employer-funded training, equality of opportunity is an important issue as, in general, those who are less qualified stand to benefit more from post-compulsory education/training than those who are more highly qualified. The targeting of funds on the less qualified is thus likely to be both more equitable and more efficient (Whitehead, 1999).

A related issue in terms of equality of opportunity is that of 'creaming' whereby the training provider seeks out and chooses individuals who cost less to educate/train, so resulting in certain groups being disadvantaged in the training market. This is an important issue where principles of equity are important – for example, initial training of young people. Such problems can to some extent be overcome in the design of the voucher scheme – for example, giving the voucher a higher face value for certain categories of trainees (such as those with low levels of attainment or those with special needs – physical or learning disabilities etc.)

(e) Lack of real choice

The aim of vouchers to increase choice may in many cases be thwarted, as in practice there may be little real choice available, particularly for those living in areas of low population density, or if the scheme is set up to include a limited range of training providers or training courses.

#### (f) Funding instability for training providers

Funding training providers on their ability to attract trainees and their vouchers rather than on supply-side criteria could create an uncertain budgetary situation and affect their ability to plan provision. As providers would be in competition, some may not be able to compete and will be forced to improve or close. There are mixed views as to whether or not this is desirable. It can be argued that providers faced with lower budgets may find it difficult to improve the quality of training provision. Furthermore, providers offering specific kinds of training with an uncertain level of demand may be forced to alter their provision. It is possible that training providers as a whole may reduce the types of training available leading to more standardised, rather than individualised, training offers. As with some of the other potential disadvantages listed here, these effects will be dependent on many other factors, e.g. existing levels of regulation regarding quality, whether the pool of trainees is increased by a voucher mechanism and the actual ability for individuals to choose their training paths.

#### **1.5.4 Summary**

The operation of voucher schemes in terms of the principles, parameters, prerequisites and potential disadvantages are re-visited in further detail within the case studies in Chapter 2 and the concluding discussion in Chapter 3. The following text explores the European context in relation to the use of vouchers to fund training.

### **1.6 The European context**

As mentioned in the Foreword to this report, the European Commission's White Paper 'Growth, Competitiveness and Employment' (1994) made explicit reference to training vouchers on the basis of models that are best suited to national cultures. Whilst the White Paper is not a statement of EU policy, it is worth exploring how training vouchers could be used within the EU context.

One way in which vouchers could be used would be in the context of the distribution of EU training funds. A voucher system could be devised with funds targeted on eligible individuals. A prerequisite would be that the vouchers would be honoured across the whole of the EU, for a given type of training over a given period of time (in due course for a given cost). With their vouchers, eligible individuals would be able to obtain guidance, information and purchase training from accredited training providers. On completion, they would receive a nationally accredited qualification. Such a model could be extended to enable individuals to train in other EU countries as a way to encourage mobility.

The training vouchers in this case would cover the costs of training with extra elements to cover travel and living expenses. An additional voucher could provide for language and inter-cultural training for the mobile trainee. There are several potential advantages of such a voucher scheme, including:



(a) *Increasing the transparency of expenditure on vocational education and training across the EU.*

Costs of education and training vary both within and between countries. Moreover, different countries use different methods to determine these costs. With vouchers, costs need to be calculated using a common framework and thus transparency between not only countries, but also between training providers would be increased.

(b) *Facilitating the exchange of information about comparable post-compulsory education and training costs.*

Voucher systems require information for suppliers and consumers alike. The introduction of voucher systems would necessitate the publication and dissemination of information that would be of value to all stakeholders in education and training – governments (local, regional, national and supranational) social partners, enterprises, training providers and consumers.

(c) *Providing incentives for training providers to inform themselves about post-compulsory education and training across the EU and so enable the exchange of innovative practice.*

Once information is more freely available, information about innovative practices would be more widely accessible to different agencies and so stimulate the exchange of innovative programmes.

At the outset, it might be possible to test out voucher schemes for education and training within certain regions (e.g. EU Objective regions or regions which border another country) using a broadly common framework adapted to regional needs.

## **1.7 Summary and discussion questions**

This chapter of the report has explored demand-side financing and in particular voucher and voucher-like mechanisms for post-compulsory education and training. The rationale and principles underpinning such schemes have been discussed together with a number of operational issues. A number of questions remain to be answered about the operation of these schemes:

To what extent are 'pure' or 'quasi' vouchers used? What is their format?

What is the currency of the voucher? Does it have a monetary value?

What are the main aims of voucher schemes?

Who are the target groups for voucher and voucher-like schemes?

Are vouchers and voucher-like mechanisms targeted on specific fields of training?

Can vouchers be supplemented?

Are vouchers of a higher face value for disadvantaged groups?

What sort of information, advice and guidance is provided?



What sort of regulation of providers exists?

Is there authentic choice under voucher schemes? Have new training providers entered the market? Is there a competitive market structure?

To what extent is 'deadweight' a problem?

Are there implications for equity? Are there incentives to cream skim? Are there disincentives?

What are the administration/transaction costs of voucher schemes?

How successful have voucher schemes been?

Are there essential prerequisites of voucher schemes?

What is the potential for using voucher and voucher-like schemes to promote lifelong learning?

What is the potential for using voucher schemes and other demand-side financing mechanisms to increase investment in training?

These questions are discussed in the concluding part of this report on the basis of the following case studies.

## **Chapter 2 Case studies of vouchers and voucher-like mechanisms**

There have been a number of developments in recent years in relation to the use of demand-side financing mechanisms. Whilst the main focus in this report is on vouchers, it is important to acknowledge that there are innovative schemes in place or proposed that share some principles with vouchers as a funding mechanism. Interestingly, pure voucher mechanisms in the field of post-compulsory education and training appear to be rare. It is not clear why this is, although one can speculate about possible reasons. One is that costs of training programmes are likely to vary according to field of training, training duration, region and training provider.

Nevertheless recent developments are taking forward certain concepts derived from vouchers in innovative ways especially in relation to the use of vouchers as a financial incentive to increase investment in training. One example of this is the introduction of Individual Learning Accounts, a scheme operating as a pilot in the UK which is being considered by a number of other countries. (See end of the UK case study.)

The case studies in this chapter reveal a wide variety of voucher and quasi-voucher mechanisms, some of which have more in common with direct demand-side mechanisms (e.g. grants, loans) and some of which have more in common with indirect demand-side mechanisms (e.g. funding training providers on the basis of expressed demand). In the following text, we examine the operation of vouchers in the UK and in Austria in detail. We then provide an overview of the use of vouchers and quasi-vouchers in the French Community of Belgium (Wallonia), in France and in the US.

### **2.1 Training vouchers in England and Wales**

Before examining the way in which training vouchers and quasi-vouchers have operated in England and Wales, it is important to be aware of the complexities of the vocational education and training system and the associated funding mechanisms.

#### **2.1.1 Vocational education and training in England and Wales**

Provision for post-compulsory education and training in England and Wales is diverse in character. Providers include further education colleges, schools, private training providers, voluntary bodies and training provided by employers.

Further education colleges have been corporate bodies since 1993. They are the main providers of second level vocational education and training in England and Wales. They cater for young people and adults. Schools provide general education and some vocational programmes. In addition, young people may also undertake work-based training. Unemployed adults also have the opportunity to undertake training programmes.

Responsibility for work-based training and training for unemployed people is currently held within local bodies known as Training and Enterprise Councils (TECs). TECs are regionally-based, corporate, non-governmental, not-for-profit bodies.

All these training providers are funded, in the main, by central government. A government agency, the Further Education Funding Council (FEFC) distributes resources to colleges. Local authorities (democratically elected bodies that receive most of their money from central government) fund schools' provision of vocational programmes. Work-based training and training for the unemployed is the responsibility of TECs, each of which has a contract with the government to provide such training. The TEC is not itself the provider of the training but has contracts with a variety of training providers. The TECs' objectives are laid down by the government and include the delivery of 'high quality' work-based training to young people so that they can obtain National Vocational Qualifications (NVQs).

Only in the case of work-based training for young people were training vouchers or 'youth credits' introduced. Work-based training for young people is open to young people who have reached the minimum school leaving age (16 years of age) who are not in full-time school or further education college, higher education or employment. The funding that TECs receive for the provision of this type of training is based on the number of young people starting the programme, their attendance on the programme and their successful completion of the programme. This element is a form of output-related funding (see Felstead, 1998).

Access to work-based training for young people was through a training credit. This in essence was a voucher, that could not be topped up by private contributions. The TEC provided the individual with a voucher. This was given to the training provider who in turn submitted it to the TEC in order to be reimbursed for the training costs incurred.

### **2.1.2 Youth credits case study: rationale and operation**

The youth credits scheme was introduced in Great Britain in the early 1990s and was in place until 1996/97 (they were subsequently phased out and replaced by a 'Learning Card' that entitles a young person to education or training after the end of compulsory education).

Training credits for young people were first announced in 1990, and the initial pilot of the scheme began in April 1991. They were designed 'to excite young people about the benefits of continuing training and further education after they have left school and to raise the amount and quality of training provided by employers' (Hansard, 1990). The pilot scheme involved ten Training and Enterprise Councils (TECs) in England and Wales and one Local Enterprise Council (LEC) in Scotland (see West et al., 1998a for further details of TECs and LECs). Training credits were subsequently renamed youth credits and launched in a further nine TECs in 1993. They were extended nationwide in England and Wales in 1995 (DfEE, 1996).

The youth credit initiative shifted funding from the supply to the demand side of the youth training market. According to the government, trainees equipped with purchasing power would adopt the role of consumers in the training market place. Their decisions would stimulate improvements in the quality and quantity of training. Training providers made directly accountable to young people would fulfil trainees individual needs in order to successfully attract young people/customers. The national objectives of the scheme were thus:

- (a) the expansion and improvement of training by motivating more young people to train and to train to higher standards;
- (b) to increase the quality and quantity of training provided for young people by employers;
- (c) to establish an efficient market in training.

Under this system the voucher mechanism was used to facilitate the operation of the training market – introducing an element of market freedom whilst providing some assurance that the quantity and quality of training consumed was adequate and optimal (Coopers & Lybrand, 1994).

The scheme represented an adaptation of the proposals outlined in 1989 by the Confederation of British Industry (CBI). However, the CBI's call for credits to purchase post-16 education as well as training was rejected, and instead youth credits were introduced for 16 and 17 year olds who left full-time education to participate in work-based training. Under the scheme, training was characterised by a combination of 'on-the-job' and 'off-the-job' provision. Equipped with their youth credit given by the local TEC, young people would select an approved training provider and use their credit to pay the provider for vocational training up to a specified vocational qualification level<sup>3</sup>. In the majority of cases the credit covered the cost of the young person's choice of training and could not be topped up with private contributions. In addition young trainees were given the right to change their initial choice of training provider in the event of dissatisfaction, with a corresponding movement of funding.

Young trainees also needed to secure a place with an employer, either in the form of employment, or a work experience placement, in order to gain the necessary work-based competences required by the vocational qualification towards which they were working. Each trainee had an individual training plan (ITP), formulated in conjunction with the training provider and the employer. This set out the trainee's intended path of progression culminating in the achievement of the specified vocational qualification. This training plan was the subject of periodic review.

In addition to distributing the youth credit to eligible young people, the TEC funded the training, redeeming vouchers as they were spent. TECs also had a role in maintaining the standards of training provision as providers had to satisfy TECs that they were capable of meeting certain quality standards before they delivered training to young people under the scheme. TECs are also contractually obliged by the government to secure an offer of training opportunities for all the young people in the 'Youth Training Guarantee Group'

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<sup>3</sup> National Vocational Qualification Level II.

which is defined in legislation. TECs discharge this responsibility by establishing contracts with providers to deliver training. This allows TECs to preserve training provision in certain geographical areas and to maintain particular types of training such as special needs provision. The annual contracts specify the details of service provision and payment rates. Hence the TECs dominate the market on the demand side, determining the key parameters of the training market in which young people could utilise their youth credits.

Therefore, training providers first had to negotiate a contract with the TEC in order to become an approved provider and second attract young trainees. Having been selected by the young person, the training provider would pass details of the credit to the TEC recording that training had been accessed and triggering payment for the training.

Employers are involved on the demand side of the market as recruiters of young people and on the supply side as suppliers of work placements. When providing trainees with jobs or work experience employers are expected to pay young people as usual, at the minimum training rate or above.

#### (a) Operation at a local level

The way in which training credit schemes were operated had to conform to guidelines produced by the Employment Department (now DfEE). However, TECs and LECs were given considerable freedom to design local models of delivery (Unwin, 1993). Hence in the implementation of youth credits there was a high degree of local variation. Details of these are outlined below, as they are essential for an understanding of the way the schemes operated. In particular, local schemes operated differently in terms of: eligibility criteria, the format of the credit, the issue and distribution of credits, the relevance of the credit to full-time education and training and payment for training.

#### (b) Eligibility

There was considerable variation in eligibility for youth credits in different TEC areas. In some areas credits were made available to all school leavers seeking work in any occupational sector. In others, the use of credits was restricted to certain occupational sectors in which there were skill shortages (Unwin, 1993). In yet others, the use of credits was restricted to those young people properly employed. There were also differences across TEC areas in the age range in which the credit was valid and extensions of the scheme beyond the national standard minimum (York Consulting; 1995; Unwin, 1993).

Many TECs developed local brand names for training credits such as 'Prospects' and 'Skill Seeker'. The adoption of a local brand name was found to be important in distinguishing youth credits from other training initiatives.

#### (c) Format of credits

Under the initiative, youth credits were to include an actual sum on the face of the credit. The national argument for this was that it would make young people more aware of the costs of learning. However, at a local level practice varied. For example, one study of all 74 TECs, found that 17 assigned no particular numerical nominal value including seven

that expressed the nominal value in terms of weeks of training (104 weeks in the case of six and 208 weeks in the remaining area). Other TECs did express the nominal value of their credit numerically as a range of values, a single value or an average value (York Consulting, 1995).

(d) Issue and distribution of credits

There were considerable variations across TECs as to who was issued with a credit and the method of distribution. In some areas, credits were issued to the whole cohort of 16 to 17 year olds, whilst in others they were issued only to those young people identified as being likely to leave school. Evaluations indicate that the issue of credits on an individual basis was highly successful in some areas. TECs that used this method of distribution tended to have higher take-up rates than other areas (York Consulting, 1995). The stage at which credits were issued also varied. In some TECs, credits were issued in the final year of compulsory education, in others credits were not issued until young people had identified a training provider or until an individual training plan (ITP) had been developed. Those models of delivery that issued credits at an early stage of the post-16 decision making process gave young people a greater sense of choice than those which issued credits once decisions had been made (Youth Aid, 1995).

(e) Extension of training credits to full-time education

In the majority of areas, youth credits were not relevant for young people who chose to remain in full-time education (as opposed to work-based training). However, a small number of TECs developed their schemes to give youth credits relevance to all young people, irrespective of the route they followed post-16. In some cases young people in full-time education were able to access education funds, in the form of bursaries and awards made by the TEC, through their credit. In these areas the belief that credits were in some sense paying for learning in the full-time education route as well as the work-based route was fostered. An evaluation undertaken by SWA Consulting (1996) indicated that these youth credit scheme models had a number of benefits. These included:

- (i) the promotion of parity of esteem between the post-16 options, as youth credits provided an identical access mechanism for both main routes;
- (ii) an improvement in the coverage and impartiality of information available to pupils. Youth credits could be positioned at the centre of careers advice rather than as an option with relevance to only a minority of young people. Information on all post-16 options could also be made available in the same document providing young people with a comprehensive account of possible choices;
- (iii) the introduction of comprehensive tracking systems, which in turn helped to reduce the number of people whose subsequent destinations were unknown.

SWA (1996) concluded that the additional costs involved in the development of these youth credit models, 'appear to be relatively modest for the additional benefits apparently obtained' (p. 39).



#### (f) Payment for training

Under the youth credits scheme, providers triggered payment for the training they delivered by passing details of the credit (usually the training credit's unique number) to the TEC. The exact nature of this process varied between TECs. In 44% of TECs, youth credits played an active role in the payment mechanisms for providers; payment from the TEC to providers was authorised by the young people themselves usually through their signature (York Consulting, 1995). Such arrangements were praised in evaluations as they allowed young people to play a more genuine role in authorising payments and gave them a greater sense of paying for their training (Coopers & Lybrand, 1994).

Factors determining the money paid to individual training providers included the level of the vocational qualification achieved by the trainee, the length of the course, the achievement of the training plan, the occupation in which training was delivered, the status of trainee, and the type of provider. The calculation and basis of payment varied considerably between different areas as the outline of arrangements in two TEC areas demonstrates.

##### TEC 1

In this TEC the credit has an annual flat rate face value of GBP 2 060 (greater for trainees endorsed as having special needs<sup>4</sup>). This covers the cost of trainee week payments. In addition there are output payments given for the achievement of NVQs which are differentiated according to the occupation in which training was provided. In the case of those with special needs, these payments are related to the achievement of units toward an NVQ (Coopers & Lybrand, 1994).

##### TEC 2

In this TEC the value of the credit is varied according to the occupation in which training is provided and the NVQ level targeted. The total value of payment from the TEC to the training provider is staged, 10% is paid on the activation of the credit, 60% is profiled over the duration of the course, 10% is paid on the completion of training outlined in the trainees individual training plan and 20% is paid for the achievement of NVQ targets (Coopers & Lybrand, 1994).

### 2.1.3 Evaluation

Evaluation of the success of the youth credit initiative is complicated by the variation in models of delivery across the country. On the basis of general tendencies, this section evaluates the scheme's impact on both the demand and supply side of the training market. Attention is also given to the issue of asymmetric information, transaction issues and confounding factors. As with all evaluative material, it is often difficult to distil the effects of a specific policy and some of the points made below may also be attributable to other policies in force in the UK.

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<sup>4</sup> For example, physical or learning disabilities.



### 2.1.3.1 Youth credits and the demand for training

Youth credits succeeded in providing young people with a greater awareness of their right to train, and the majority of credit users felt that the initiative had been an inducement to follow local training and employment routes (Sims & Stoney, 1993). A substantial minority of young people (21%) regarded the possession of a credit as 'money for them to buy their own training with' (Coopers & Lybrand, 1994, p. 35). Young people demonstrated high levels of satisfaction with the youth credit initiative. Coopers & Lybrand (1994) found that 80% considered that they had had enough say in choosing the training they were doing; 88% felt that they were given enough information to enable them to decide which type of training they wanted and 64% felt that they were given sufficient choice between alternative providers.

Despite exhibiting high levels of satisfaction, the evidence suggests that young people played a relatively passive role under the scheme. Overall levels of awareness and understanding of the youth credits scheme among young people were low. 'Young people had a limited understanding of the credits process and their role in it', (Coopers & Lybrand, 1994, p. 21). There was little evidence that they adopted the role of consumers motivated by user interests, operating in a market place. Young people were no more likely to 'shop around' before choosing their training provider (Coopers & Lybrand 1994; Youth Aid, 1995). Once in training young people did not exercise greater influence over the training that they were receiving nor were they any more likely to move between providers, in the event of dissatisfaction (Coopers & Lybrand 1994; Hodgkinson et al., 1995; Youth Aid, 1995). In many ways it is unrealistic to expect young people's behaviour to have fundamentally changed in the short period of time in which the youth credit scheme operated; the results may have been different if it had operated over a longer time frame. However the extent to which young people have the maturity and self-confidence to negotiate with training providers or threaten to take their custom elsewhere has been questioned (Coopers & Lybrand, 1994; Youth Aid, 1995).

Models of credit delivery militated against 'consumer behaviour' among young people. In some areas, young people were never in possession of a credit which was instead sent straight to training providers to ensure that it was 'not lost' (Cooper & Lybrand, 1994, p. 21). In other areas, TECs only issued young people with training credits after they had made their choice of training provider and conveyed this to the TEC. In many areas young people also only used their credit on one occasion, when enrolling with a training provider. The credit had no role as currency with which the young person would purchase their training thereafter. In such cases 'young people found the notion of purchasing power illusory – [it was] just another form of funding to be noted on the appropriate form' (Unwin, 1993, p. 215).

The levels of consumer behaviour exhibited by young people were also affected by limitations on the supply side of the training market. Some young people had little opportunity to shop around or to use the powers of voice and exit. For those young people living in rural areas or for those who sought training in unusual occupational areas there were very few providers (often only one) who were able to meet a young persons' specific

needs (Coopers & Lybrand, 1996). The need for a surplus supply of places and the payment of transportation costs, to prevent spatial monopoly and to authenticate choice, was also found in another UK voucher study (Kent County Council, 1978)<sup>5</sup>. These provisions were thought to be necessary if the voucher system was to be fair and efficient.

Other commentators have suggested that the provision of purchasing power is likely to provide insufficient incentive for young people to undertake training if provided in isolation. Other disincentives/barriers that young people face when deciding to train, such as foregone income and the hidden costs in undertaking training, often remain unaddressed (Smithers & Robinson 1989; Woolhouse, 1993). A House of Lords Committee report (1990) reiterated these concerns suggesting that in addition to vouchers, 'a variety of additional incentives such as tax allowances, maintenance and travelling allowances may be necessary'.

#### 2.1.3.2 The issue of asymmetric information – employers as a voice of demand for training

Although young people were provided with purchasing power in the form of youth credits, evaluations suggest that employers (young people in work-based training have to secure a placement with an employer) played an active role as demanders of training provision for young people. As Coopers & Lybrand (1994) highlight 'a significant proportion of young people were directed ...by their employer and played little active part themselves in the decision making process' (p. 20).

This reflects the asymmetric distribution of information in the training market. Youth credits and other concurrent policies such as those that improved career guidance did improve the quality of information supplied to young people on local training routes. However, in many areas young people were not equipped with detailed, unbiased and accessible information and advice on which they could base their choice of training and provider (Unwin, 1993; Coopers & Lybrand, 1994). The crucial role that information plays in voucher systems has been noted by numerous commentators (West et al., 1998b; Coopers & Lybrand, 1996). Hence the knowledge and information possessed by employers remained superior. Indeed in numerous cases young people welcomed employer involvement as it provided reassurance that the training they planned was relevant to their current placement/job and to their future career plans (Coopers & Lybrand, 1994; Youth Aid, 1995). Coopers & Lybrand (1994) go on to suggest that a more radical policy innovation such as the total or partial re-routing of credits through employers would have taken better account of the asymmetric nature of information in the training market.

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<sup>5</sup> This study tested the feasibility of the introduction of vouchers to finance school-based education in the Ashford division of Kent, a county in South East England.

### 2.1.3.3 Youth credits and the supply of training

The youth credit initiative operated for a limited period of time and this militated against adjustment on the supply side of the training market. This is important to bear in mind given that in the UK the training market has operated much as a conventional market for many years.

Evaluations completed within two to three years of the launch of credits, however, concluded that youth credits had not significantly altered the traditional modes of delivery of training in colleges and among private providers (Howells, 1992). The training provider network had remained relatively static, with few exits or new entries into the market. Furthermore there was 'relatively little competition between training providers', and where competition did exist it was 'low key in nature' and 'entirely non-financial' (Coopers & Lybrand, 1994, pp. 2-3 and 25-26). Genuine competition was concentrated in the wider education and training market place for school leavers, between vocational training providers as a group, and schools and colleges offering educational courses rather than between individual training providers.

The initiative provided little incentive for training providers to compete on the basis of price and value for money when attempting to attract young people, who could only purchase training at a fixed price, with no opportunity for savings to be spent on other forms of education or training. It is possible to envisage a system under which young people receive vouchers of varying amounts reflecting their needs, that they would then be free to spend on a package of training of their choosing. Those young people attending courses below their voucher value would then have the opportunity to attend additional courses, for example. This would increase competition on price and value for money among providers. Whilst this voucher model does have appeal, there would be considerable financial implications. Additional costs would arise from the collection of information on young people's needs that would be a prerequisite for the allocation of voucher values (Levin & Driver, 1997). The contracting process between training providers and TECs also had an impact on competitive practice on the supply side of the training market (see next section).

### 2.1.3.4 Transaction issues

Processes of transaction had an impact on adjustment on both the demand and supply sides of the training market under the youth credit scheme. Systems of voucher redemption between the training providers and the TECs did little to empower young people as consumers on the demand side. Young people had no opportunity to question the charges by training providers for training delivered or the option of actually refusing payment in the event of dissatisfaction as would be the case in conventional markets (Coopers & Lybrand, 1994).

A key transaction issue was the relationship between the training provider and the TEC. On the supply side competition between training providers was constrained by the annual contracting process between TECs and training providers. In the majority of areas contracts specified the number of trainee weeks/outcomes, training providers were to deliver over the contractual year in pre-determined occupational areas. Subsequently the

income of training providers was dependent upon the providers past performance and skill in attracting and negotiating contracts with TECs rather than solely on their ability to attract young people as would be the case in a pure voucher system. Competition among providers for TEC contracts was limited (Coopers & Lybrand, 1994). This process tended to 'reinforce the status quo in terms of the provider network with the vast majority of contracts being renewed year on year...few existing providers leave the network each year and very few new providers enter the local market' (Coopers & Lybrand, 1994, p. 33).

A number of TECs attempted to 'free up' the market, through modification of the contracting process. This involved lowering the regulatory barriers to entry and exit from/to the training market and reducing anti-competitive practice. These changes were not attributable to the introduction of youth credits but do have a significant impact on the levels of competition stimulated by the credit scheme. In these TEC areas, differential costing (whereby different values for training were set depending on whether the provider is in the public and private sector) was removed as were ceilings on the number of weeks or outcomes that could be delivered by providers. As a result, these TECs merely licensed providers to train in certain occupational areas, and subsequently increased the numbers of providers with whom they contracted. Coopers & Lybrand (1994) suggest that this should in theory stimulate competition as new providers are encouraged into the training market and the profile of provision is determined to a greater extent by the choices of young people and employers. Hence they conclude: 'The most effective youth credits systems will, however, move as far towards a free a market system as possible consistent with the TEC Operating Agreement and other regulations' (p. A4).

Changes to the contracting process between TECs and training providers may therefore have beneficial outcomes in terms of increasing competition on the supply side of the market. However, the notion of increasing competition between providers in the market place gives rise to tension given other policy developments that aimed to assure and improve the quality of training delivered. Rather than increasing the number of providers in the market place, quality assurance policies supported the development of longer term links with 'preferred suppliers' and the development of 'centres of excellence' (Coopers & Lybrand, 1994). Policies of this nature have thus tended toward a reduction in the number of providers with which TECs contract. Such reductions have also been undertaken on the basis of administrative simplification and the reduction of administrative costs.

#### 2.1.3.5 Confounding factors of the scheme – employers as suppliers of work placements

The involvement of employers complicates evaluations of this particular voucher scheme. Employers are involved on both the demand and supply sides of the market, as indirect consumers of training and as the providers of work experience placements. The involvement of employers as providers of 'on the job' training meant that the success of the youth credit initiative was dependent, at least in part, on the supply of work placements and employment opportunities. This was in turn determined by local labour market conditions. This was unproblematic when the policy was formulated in the late

1980s. The economy was expanding and the numbers in the 16-17 year old cohort were in decline. Young people were in short supply and hence, armed with vouchers, in theory, they would be in a position to choose the job that offered the best training. However, youth credits were subsequently introduced in the early 1990s, in the context of an economy in recession and an expanding 16-17 year old cohort (Unwin, 1993; Finegold, 1993). As a result the demand for jobs with training far outweighed the supply, as employers of all sizes and sectors stopped recruiting. Although this reduced opportunities for all young people to use their credits, those with special education and training needs found their choice was significantly constrained as employers 'creamed' the most able young people (MacDonald & Coffield, 1993). As Hodgkinson et al. (1996) noted: 'Young people are not the only ones to choose. Often what happened more closely resembled employers choosing their trainees' (p. 16). In many areas, young people, unable to gain work experience or employment, were only able to use their training credit to access full-time courses for unemployed school leavers which colleges had developed as a response to the limited supply of opportunities in the work place. This in turn affected the number of young people gaining qualifications under the scheme (Woolhouse, 1993). These developments have prompted criticisms of the voluntary nature of employer involvement in the provision of youth training under the youth credits policy. As one study summarised:

'Widespread reform of vocational training cannot afford to be dependent on economic vagaries. For training credits to work ... vacancies and choice must be available for young people. This is not happening with the current voluntary involvement of employers' (Youth Aid, 1995, p. 45).

#### **2.1.4 Summary**

In summary, the youth credit initiative succeeded in providing young people with a greater awareness of their right to train, although the evidence suggests that they played a relatively passive role under the scheme. This is likely to be a function of the design of the scheme, not a function of the introduction of vouchers *per se*. However, the regional variation is of interest and suggests that some schemes were more empowering for young people than others were. Consumer behaviour was also affected by limitations on the supply side of the training market. However, it is important to note that the scheme was operational for a relatively short period of time before evaluations were conducted; it may well be the case that over time the behaviour of young people would have adapted to the new regime. There were also problems with asymmetric information and the lack of unbiased accessible information for trainees in many areas.

In terms of the supply of training, the fact that the youth credits initiative operated for a limited period of time also militated against adjustment on the supply side of the training markets. Furthermore, a number of transaction issues had an impact on adjustment on both the demand and the supply sides of the training market.

There were also a number of confounding factors that had an impact on the initiative. In particular employers were involved on both demand and supply sides of the market – as consumers of the training and as providers of work experience placements. This caused



problems when the economy went into recession around the time of the introduction of the initiative as demand for work-placements outweighed supply. This reduced opportunities for young people to use their credits and those with special education and training needs found their choice was constrained as employers creamed the most able young people. Choice was thus exerted by the employers not by the young people.

Thus in terms of evaluating the youth credits initiative, it is important to bear in mind the design and structure of the scheme and how these factors may have impinged on its success. The scheme has now been replaced with an entitlement to education and training. It was felt that the concept of empowerment had not been wholly achieved with youth credits. It was also felt that young people needed to be aware of all post-16 education and training options and that they should be empowered through the acquisition of information. The successor to youth credits is the 'Learning Card' which provides young people above the age of 16 years (when compulsory education ends) with information on and an entitlement to education or training. Funds are allocated to training providers using a per capita funding regime.



### A Note on Individual Learning Accounts in the UK

A further initiative in funding training was launched by the government in March 1999 called 'individual learning accounts' (ILAs). This is a scheme whereby individuals will be given a fixed amount of money which is earmarked for education and training. It is expected that employer and individual funding will supplement this money. The overall aims for individual learning accounts include:

- to help generate a highly skilled workforce necessary to improve productivity.
- to promote lifelong learning.
- to encourage people to take responsibility for their own training and development.

Such accounts 'will become the main source for help for adults to acquire qualifications, helping them to increase their earnings and employability' (Inland Revenue, 1999, p. 1). To encourage employers to invest in their employees' training, contributions made by them to employee ILAs will qualify for a deduction from taxable profits provided that they contribute to the ILAs of their lowest paid workers on similar terms. The first ILAs will open in 1999/2000. For each of the first one million accounts, the government will provide GBP 150 (EUR 232.5)<sup>6</sup> for spending on education and training, when the holder commits a minimum of GBP 25 (EUR 37.8). In the following year, a national framework will be put in place so that ILAs are available to everyone. These ILAs will also provide discounts of 20% on certain courses up to GBP 500 (EUR 775.2) a year and more generous discounts for certain key courses, including computer literacy. Legislation will be enacted in 2000, when details of how the ILAs will operate have been settled.

Twelve ILA development projects were funded in 1998/99 and an evaluation has recently been published (SWA Consulting, 1999). All ILAs were required to be easy to open and operate. Holders had to be able to withdraw their own investment at any time; information, advice and guidance should be offered to account holders; all holders were to invest a minimum of GBP 25 (EUR 38.8); TECs (acting in this context as a government agency) were required to contribute GBP 150 (EUR 232.6). TEC contributions were made in various ways – direct payment into ILAs, issuing vouchers (in the form of a single voucher or a book of 'cheques' in GBP 10 (EUR 15.5) and GBP 20 (EUR 31) denominations) to pay for learning, electronic transfers to ILAs and 'virtual transactions' which credit and then immediately debit ILAs. In this case, the TEC faxed instructions to the bank to credit the value of the cost of the course to the individual's account and then immediately instructed the bank to reverse the transaction. 'In this way, credits appear on individuals' statements, but are only in the account for a few seconds, thereby preventing withdrawal' (SWA Consulting, 1999). Actual payments were made later by the TEC directly to the provider. Those TECs that used vouchers did so to maintain more control over where the money was being spent and to minimise risk. If GBP 150 contributions were paid to individuals' accounts there was a danger that they would withdraw the money without participating in a training course. In a minority of projects, the TEC contribution was paid in instalments; the rationale was that full contributions increased the risk of deadweight and removed an incentive for continued learning. However, if a contribution in instalments 'means that the individual carries a debt for some time, then that can be a considerable disincentive' (SWA Consulting, 1999, p. 3). The requirement that the individual should contribute to the costs may be seen as a method of increasing his or her motivation to undertake training, given the personal investment that has been made. The fact that employers will be contributing to the scheme and that there will be tax reductions on their taxable profits on the basis of their contributions, can be seen as providing a financial incentive for them to participate in such a scheme.

<sup>6</sup> October 1999 exchange rate: EUR 0.64 = GBP 1.

## **2.2 Demand-side financing: training accounts in Austria**

### **2.2.1 Background**

According to a recent report, the shortfall in funding adult education and training in Austria, as compared to lifelong learning targets defined by OECD, is estimated to be EUR 1.1 billion per year (Ofner, F. & Wimmer, P., 1998). The Austrian Federal Economic Ministry reports that employees are increasingly financing vocational education and training themselves and the participation of employers in financing training is diminishing. At the same time, the price index for vocational education and training between 1986-96 reached 307%. This means that there has been a threefold increase in training costs over a period of ten years placing a large burden on employees and other individuals wanting to participate in training programmes.

The White Paper on Growth, Competitiveness and Employment published by the European Commission provided a strong impetus for the development of demand-side financing approaches, particularly in the context of lifelong learning.

As a result of the EU context and the national situation, two financing policies targeted at individuals wishing to participate, and to stimulate participation, in continuing training were introduced: training vouchers and training accounts. Both policies were implemented at the regional level by the provincial governments of Austria with the involvement of the social partner organisations. Specific demand side financing policies have been introduced in five out of eight Austrian provinces, namely in Carinthia, Salzburg, Styria, Upper Austria and Vienna. The case studies in this section focus on the Upper Austrian and Viennese provinces. Before outlining the schemes and their evaluations, it is important to highlight some features of the continuing training system in Austria.

Training providers in Austria can be classified into the following groups according to their legal status:

- (a) public education system (schools, universities and other higher/further education and training institutions);
- (b) non-profit making institutions (e.g. local authorities, churches);
- (c) commercial providers;
- (d) enterprises (organising and carrying out their own continuing education and training activities). Also in this category are institutions providing continuing training for employees of the federal and provincial government.

All federal level vocational education and training activities are coordinated by the Conference of the Associations for Adult Education (KEBÖ) amongst whose traditional members are the Adult Education Centres (Volkshochschulen – VHS), the Vocational Support Institutes (BFI) and the Institutes for Economic Development (WIFI). In addition to traditional training providers, there has been an increase in the number of private providers offering training in new and profitable areas such as languages, computing and management.

There are a variety of methods used to fund vocational education and training in Austria. The main sources of funds are the federal and provincial governments, the municipalities, social partners, churches and private sponsors.

This case study focuses on the 'training accounts' that have been introduced in Austria during the 1990s. The schemes were set up at different times, between 1993 and 1999. In the first instance the rationale and operation of the schemes are outlined and the following section provides an evaluation of the schemes using data obtained from administrative sources and from one detailed evaluation (Leitner, 1998).

### **2.2.2 Vouchers/training accounts case study: rationale and operation**

In Austria, the development of demand-side approaches to financing education and training has not resulted in a classical voucher scheme being introduced. Rather the schemes that have been set up can be considered to have some of the attributes of vouchers.

In five of the eight Austrian provinces (Carinthia, Salzburg, Styria, Upper Austria and Vienna) demand-side schemes – originally marketed as 'vouchers' in Vienna – have been set up. In essence, they involve co-funding training by the provincial (i.e. regional) government and the individual participant. In some of the schemes, there is a financial contribution from the regional social partner organisations.

The common element in all of the schemes is that the individual wanting to participate in a training course can secure a financial entitlement towards the cost of training. At the outset he or she pays all the training costs, but subject to meeting a set of predefined criteria (see below), the provincial government and/or social partner organisations enters into a contractual agreement with the individual to reimburse part of the costs (in some cases other non-training costs are included, e.g. travel/living expenses).

While the Austrian cases differ from a pure voucher scheme in that there is no coupon involved in the transaction process and money is paid to the individual rather than the training provider, the schemes do have elements in common with a voucher insofar as there is a *financial entitlement* to participate in training. Furthermore, while the trainee meets the training costs at the outset of the course, there is a pledge from the provincial government or social partner organisations to meet certain costs in advance of the course being taken. The contract between the provincial government and the trainee takes the form of an invoice indicating what payments the trainee will receive and when they will be paid on proof that the trainee meets certain attendance and/or certification criteria.

The general aims of all the schemes are to improve the skills and qualifications of individuals in work or seeking work in an overall context of lifelong learning through the introduction of financial incentives to participate. Additional aims were identified in certain provinces.

Region/ administration	Schemes	Since	Additional Aims
Upper Austria (provincial government)	<ul style="list-style-type: none"> <li>- <i>General training accounts</i></li> <li>- <i>Special training accounts</i></li> <li>- <i>Project-oriented accounts</i></li> </ul>	1995 1995 1999	Improving/furthering skills and qualifications for employed people and acquiring new qualifications for unemployed people.
Vienna (Viennese Employees' Fostering Fund - WAFF)	<ul style="list-style-type: none"> <li>- <i>Professional improvement accounts</i></li> <li>- <i>Certified training course accounts</i></li> </ul>	1996	Improving the mobility of skilled labour, providing support for structural economic change, fostering entrepreneurship and stimulating competition among training providers were identified.
Carinthia (provincial government)	- <i>Further training for medical personnel</i>	1993	Improvement in health-related skills and qualifications for both those employed within the health sector and unemployed people.
Styria (provincial government)	<ul style="list-style-type: none"> <li>- <i>Post-apprenticeship training</i></li> <li>- <i>Training for potential entrepreneurs</i></li> <li>- <i>Special qualification for young employees</i></li> </ul>	1993 1996 1997	Improve the general and specific professional and personal qualifications of apprentices on completing courses within the dual system. Improving training for potential entrepreneurs. Certified courses for young employees.
Salzburg (1) (provincial government)	- <i>General training accounts</i>	1998	To provide a financial incentive to improve training in certain key qualification areas as a means to improve job security and to re-train unemployed people.

(1) The scheme in Salzburg is a pilot project with an initial duration of two years (1998-99).

The way in which the schemes operate varies between the provinces. The key characteristics of each of the schemes are outlined below.

#### (a) Target groups and eligibility

Despite variation in target groups and eligibility criteria, all of the schemes are designed for residents of the province concerned. In general, the target groups fall into three categories, namely:

- (i) individuals in employment who wish to undertake continuing vocational training to improve their skill levels;
- (ii) individuals in employment who wish to undertake training that is aimed at obtaining a certificate (e.g. from a technical college);
- (iii) individuals on maternity or paternity leave or who are unemployed or seeking employment;
- (iv) apprentices graduating from the dual system.

Region	Target Group
Upper Austria	Employed/unemployed people. Emphasis on apprentices completing the dual training system. 'Project-oriented' training account scheme specifically targeted at re-entrants to the labour market e.g. those on maternity/paternity leave or on a career break.
Vienna	Full-time and part-time employees, apprentices, unemployed people, re-entrants to the labour market (e.g. those on maternity/paternity leave), military personnel. (Excludes civil servants, high school and university students.)
Carinthia	For both employed and unemployed people working (or who wish to work) in the healthcare sector.
Styria	Apprentices completing the dual system. Another scheme for potential entrepreneurs.
Salzburg	All residents not receiving any other training support.

### (b) Fields of education and training

The training accounts vary between provinces in terms of the fields of education and training that are supported. Some schemes are designed to encourage specific types of training to reflect skill shortages in the labour market while other schemes are more general in the type of training supported. Some of the schemes are targeted towards certified training whereas others are not formally accredited.

Region	Type of education and training
<b>Upper Austria</b>	
- General Training Account	Furthering of qualifications and/or specific training for personal development e.g. language training, computer skills etc. Leisure related training is excluded.
- Specific Training Account	Certified courses, leading to a formal qualification.
- Project-oriented Training Account	Specific target groups, e.g. those on maternity/paternity leave, disabled people.
<b>Vienna</b>	
- Professional improvement accounts - Certified training course accounts	Acquisition of work-related skills for updating or improving professional qualifications.
<b>Carinthia</b>	
- Further training for medical personnel	Training related to the healthcare sector.
<b>Styria</b>	
- Post apprenticeship training	Certified training to improve the personal and professional qualifications of apprentices. Training must be at least 40 hours.
- Training for potential entrepreneurs	Skills and qualifications needed to establish an enterprise ('Certificate of competence').
- Special qualification for young employees	Certified training in specific fields e.g. computer training, marketing, electronics etc. Course duration must be at least 80 hours.
<b>Salzburg</b> - General Training Accounts	Certified courses leading to a broad range of key professional competences (excluding higher education) e.g. accounting, languages, computer skills etc. Each course should comprise at least 32 lectures.



### (c) Training suppliers

One similarity, between all of the schemes is that the trainee has to choose from a list of certified training institutions. For example, in Styria, trainees who choose the services from a list of eight training providers can be eligible for financial support. In Upper Austria and Vienna, trainees can choose between all major groups of training providers (WIFI, BFI, VHS etc.) and some private training companies. The inclusion of private training companies is subject to revision and is expanding.

While this predefined choice of suppliers may be viewed as restrictive it is a means of ensuring that only good quality training companies are approved. Furthermore, as all the schemes are provincially based, the local administration tends to support local training providers. As experience about the schemes is increasing, however, the list of approved providers is growing.

### (d) Financial entitlement for the training

The schemes vary in terms of the amount of financial entitlement available to trainees. In general, the schemes allow for a refund of up to 50% of the direct costs of the course with minimum and maximum amounts specified. The maximum amounts tend to be higher for those participating in courses leading to certification or those who are unemployed. For the latter groups, additional funds are made available to cover travel costs. The amount of available funding varies across provinces and depends on the target group. The *maximum* amount per year per participant ranges from ATS 2 000 to 20 000 (depending on the region and the specific scheme).

Province	Scheme	Amount ATS per annum
Upper Austria	<i>General training account</i>	50% of costs to a max. ATS 10 000 (EUR 726.7). Minimum payment of ATS 1 000 (EUR 72.7) (minimum training costs must be ATS 2 000).
Upper Austria	<i>Special training account</i>	50% of costs max. ATS 20 000 (EUR 1 453.5) plus up to ATS 15 000 (EUR 1 090.1) living/ travel costs. Limit of ATS 45 000 (EUR 3 270.3) for a three year course plus ATS 15 000 (EUR 1 090.1) per year living expenses.
Upper Austria	<i>Project-oriented training account</i>	As for general or special accounts plus ATS 15 000 (EUR 1 090.1) subsidy
Vienna	<i>Professional improvement</i>	Employed: 50% of costs max. ATS 2 000 (EUR 145.3) Unemployed, ma(pa)ternity leave: ATS 4 000 (EUR 290.7)
Vienna	<i>Certified training</i>	80% of costs max. ATS 6 000 (EUR 436)
Carinthia	<i>Further training for medical personnel</i>	Self-participation fee of ATS 2 500 (EUR 181.7). Remaining training related costs can be claimed to a max. of ATS 7 500 (EUR 545). Value of reimbursement is means-tested. Unemployed people receive the maximum allowance if they have been claiming benefits for at least 36 months.
Styria	<i>Post apprenticeship training</i>	50% of course costs up to a max. ATS 4 000 (EUR 290.7)
Styria	<i>Training for potential entrepreneurs</i>	50% of course costs up to a max. ATS 6 000 (EUR 436)
Styria	<i>Special qualification for young employees</i>	50% of course costs up to a max. ATS 10 000 (EUR 726.7)
Salzburg	<i>General training accounts</i>	50% of course costs up to a max. ATS 2 000 (EUR 145.3)



#### (e) Application procedure and the transfer of funds to participants

While there are differences between the provinces, the application for funds and agreements on the value of the financial entitlement has to be decided in advance of the training. Depending on the length of the training course, the value of the financial entitlement is given at the end of the course, or yearly if the course exceeds one year. For some trainees, the funding can be made in monthly instalments. For most courses, the financial entitlement is only paid on proof that the course has been attended and/or that a training certificate has been gained. Once payment has been approved, funds are paid directly into the trainees' bank accounts.

The precise procedure adopted in the various training account schemes varies between provinces. A brief description follows of the procedure in Upper Austria for the 'general' and 'specific' training accounts schemes.

- (i) Applications are forwarded to the Upper Austrian regional government for approval. If approved the trainee receives a document confirming the amount that will be reimbursed and agreed instalments (by semester/yearly/monthly). Thus the individual participant has a contractual agreement with the regional government.
- (ii) The applicant pays the first year's fee for the course.
- (iii) Where the course is not certified (general training account), the individual must provide proof of attendance and he or she will be reimbursed for 50% of the course fees (up to the specified limit).
- (iv) Where the course is certified (special training account), the individual must present the certificate and he or she will be reimbursed for 50% of the course fees (up to the specified limit).
- (v) Where relevant, travel and subsistence costs are reimbursed on a yearly basis subject to proof of attendance.

The organisation responsible for the application and transfer process is usually part of the provincial administration. In the case of Salzburg, however, applications are approved by an independent company.

#### **2.2.3 Vouchers/training accounts case study: evaluation**

Evaluation of the Austrian training account schemes is complicated by the variation in the models of delivery in the various provinces. On the basis of the information obtained this section evaluates the impact of training accounts on both the demand and the supply side of the training market. As a detailed evaluation was only available for the Vienna WAFF (Viennese Employees' Fostering Fund) scheme, this is treated more comprehensively in the following text.

In terms of issues related to the demand for training, there is some information available in relation to schemes in two provinces, namely Upper Austria and Vienna.

(a) Take-up

In **Upper Austria** between October 1994 and December 1998, about 20 000 personal vouchers were approved and paid for and a total of ATS 125 million (EUR 9.1 million) were transferred to the successful applicants. During this time, the number of applicants has increased approximately 10% year-on-year which seems to indicate that demand has been stimulated by the different schemes. As a result, the total allocation to the Upper Austrian schemes has increased by nearly a third between 1998 and 1999 (from ATS 33 million – EUR 2.4 million – to ATS 48 million – EUR 3.5 million). In 1998, more than 90% of applications for funding were successful.

In **Vienna**, the demand for funds was lower than the total allocation in 1996 when the scheme was introduced (67% of the budgeted ATS 10 million – EUR 0.7 million). The lower than expected participation was explained by a lack of knowledge about the scheme and subsequently an information leaflet has been distributed to possible target groups.

In contrast to the scheme in Upper Austria the success rate for applications was 76% in 1996 (although this includes 34% who were originally accepted onto a scheme but then failed to show a certificate). Reasons for rejection included the training provider not being approved (15%), lack of payment receipt (12%) and the applicant living outside Vienna (7%) (Leitner, 1998). The criteria that a successful applicant has to meet initially resulted in a decline in applications. For 1997, vouchers valued at only ATS 4.8 million (EUR 0.3 million) were distributed to 3 000 successful applicants.

In **Carinthia**, take-up has increased in Carinthia since the scheme was introduced which has led to a higher budgetary allocation to the scheme (from ATS 5.5 million – EUR 0.4 million – in 1995 to ATS 6 million – EUR 0.4 million – in 1996).

(b) Characteristics of participants

In **Upper Austria**, most of the participants in the scheme were male (60%). Furthermore, most had completed compulsory schooling with a leaving certificate. Most trainees (67%) were manual workers from the industrial sector.

In **Vienna**, participants in the WAFF scheme in 1997 were mostly young qualified employees. Half of the trainees were less than 33 years of age. Virtually all (95%) of the participants were of Austrian origin. Half had the high school Matura (awarded on successful completion of upper secondary general education); six out of ten were employed; one in eight were skilled workers whilst one in four were office workers. Despite the rule that courses have to be pre-paid by the trainee, the number of people unemployed or on maternity/paternity leave who participated in approved training courses was 14.6% (Leitner, 1998). Most of the participants wanted training to improve their personal knowledge without any job-related rewards (48%) followed by a desire to increase their job security (23%) and to improve their chances for promotion or a salary raise (13% and 11% respectively).

(c) Type of training pursued

In **Upper Austria**, most participants (99%) used the voucher to follow a continuing training course. The highest demand was for computer related training followed by technical training or training in financial management skills.

In **Vienna**, many of the trainees in this scheme pursued a certified training course in languages (28%) and computer skills (19%). Other courses included financial training and management training (Leitner 1998). Few courses pursued met the maximum limit of the value of the entitlement (only 17% of approved courses attract a contribution of ATS 2 000 from the WAFF).

(d) Availability of information

For individuals to be able to demand training, they need unbiased information in order to make informed choices. In the WAFF scheme in Vienna, Leitner (1998) found that just under 50% of trainees found out about the existence of the scheme through the training institution. Other sources of information included the media (around 25%) friends or relatives (just over 20%); the workplace (just under 10%) and the employment service (around 5%). The problem of asymmetric information is important, as without unbiased information individuals cannot make informed choices. Since the evaluation was carried out there has been a mass distribution of leaflets describing the main options.

(e) The effect of the schemes in stimulating demand

In the evaluation of the WAFF scheme in Vienna by Leitner (1998) the extent to which the level of financial assistance stimulated the demand for training was considered. Whilst a substantial share of applicants (57%) would have participated in training without the training account scheme, the remainder (43%) viewed the financial assistance as decisive. On the one hand then, there was a problem with deadweight, whilst on the other the scheme had a major stimulating effect.

(f) Supply of training

As mentioned above, when considering the training providers the choices of trainees were constrained to providers approved by the provincial government.

In **Upper Austria**, the main suppliers were the traditional publicly-funded bodies (WIFI and BFI). Over eight out of ten (82%) of trainees undertook training with these suppliers. The share of private suppliers was low.

Likewise in **Vienna** (Leitner, 1998) the majority of trainees (60%) undertook their training with traditional suppliers. Observers have noted that there is an asymmetry in terms of approved providers. Entry of small, innovative suppliers has been hampered in the Viennese scheme, for example, training firms with less than four staff were not eligible to become an approved training provider.

#### (g) Quality of training

The quality of training was evaluated in the WAFF scheme in Vienna by Leitner (1998) through measuring the participants' level of satisfaction with the training course. Most of the trainees had a 'good' or 'mixed' feeling about their courses and relevance to a profession. Furthermore many participants (28%) are following new career paths or new jobs as a result of the training.

#### (h) Transaction costs

Due to the evaluation procedure for the applications coupled with the low number of applicants, the administrative costs associated with the schemes are reportedly high. In the case of Upper Austria, the provincial administration approves applications, issues the payment contract and pays the agreed instalments. Only in Vienna is there a dedicated management company that is apparently carrying out its role in a professional and cost-effective manner. Furthermore, in Vienna, funds from the WAFF to the individual trainee are paid via electronic transfers to their bank accounts on either a one-off basis or in instalments. This method is clearly more cost-effective than traditional methods of reimbursement (preparing, authorising and sending cheques) and reduces some of the transaction costs of more traditional voucher schemes.

### **2.2.4 Case study summary and conclusions**

In summary, demand-side financing mechanisms have been introduced in response to budget constraints and increasing training costs in an environment whereby continuing training and lifelong learning should be encouraged. In addition, debates at the European level have also stimulated interest in co-funding schemes.

All of the schemes in Austria have been introduced at the provincial level and have varying target groups and eligibility criteria. Some of the schemes are targeted at improving skills and qualifications in certain professions in order to meet the requirements of the local labour market.

The training accounts/voucher schemes in Austria have been successful in terms of stimulating demand for training, albeit with substitution of public for private funds in a high proportion of cases (at least in Vienna). In terms of the demand for training, unbiased information is needed to help individuals to make informed choices. The evidence to date suggests that this is an area where improvement is needed and efforts to increase the provision and dissemination of information are underway.

On the supply side there is a case for allowing new training providers to enter the schemes, as the current majority are the traditional public suppliers. This could help to make the major providers more competitive. It should also encourage innovation and a more responsive training market.

In terms of overall conclusions, the schemes are mainly benefiting the better educated. However, it is a nearly universal finding that the more highly educated and those in higher social groups are the main beneficiaries of continuing training. While unemployed people

are participating in the schemes despite the need for them to meet the training costs in advance, access for these groups could be made easier if a more traditional voucher mechanism were introduced. For example, the financial entitlement for course costs could be paid in advance of the training directly to the training provider. The issue of access also relates to more expensive courses which exceed the limit of the available financial support and may be too costly for lower paid potential trainees. The prospect of deadweight however requires examining the potential to increase the current level of entitlement carefully. In the case of the Vienna WAFF scheme, there may be an argument to tailor the financial support more carefully as in some of the other schemes e.g. Upper Austria and Styria, to more specific target groups and/or training types.

It is accepted in Austria, however, that the design of the schemes is undertaken locally according to local needs and priorities. Furthermore at the current time, there are no plans to expand such schemes to initial training or programmes for training unemployed people. While the latter group is able to participate in some of the schemes, the schemes remain targeted at individuals wishing to continue or update their existing training.

## **2.3 Ford EDAP case study**

The Ford EDAP case study provides a valuable example of a privately financed voucher scheme for continuing vocational training among employees. The initiative is a particularly innovative example given the context of the CVT market for employees in the UK. Whilst enterprises are primarily responsible for such training, involvement on the part of employers is voluntary, and subject to very low levels of government regulation. This is in distinct contrast to many other European countries where the CVT system for employees tends to be governed by higher levels of regulation and formalised systems of funding.

### **2.3.1 Rationale and operation**

The Ford Employee Development and Assistance Programme (EDAP) has been operating in the UK since 1989. It was established in 1987, as a component of the wage and salary negotiations and as part of the collective agreement between the company and trade unions. EDAP was launched with an initial annual investment of GBP1.8 million (EUR 2.8 million). The voucher mechanism was utilised to increase employees' participation in training, and aimed to 'offer employees a wide range of personal and career development education and training, retraining and development activities and to make available a variety of employee assistance services to encourage healthier life styles' (Ford, EDAP, 1996, p. 3).

In addition the scheme aimed: to improve the industrial relations climate of the company at a national and local level, as unions and company management were to work together in a non-adversarial climate to model transferable behaviours; to assist in changing the overall organisational development climate of the company thorough delegating responsibility and financing to joint groups of union representatives and management (Ford, 1996).



A national joint programme committee was established to ensure that the objectives of the scheme were met. This consisted of 12 union representatives and 10 representatives of the company's management. The day-to-day operation of EDAP is overseen by a central team of representatives of management and unions. This is supplemented by local joint programme committees at each of Ford's 19 UK sites, which have the task of controlling a budget – based on the number of employees working on site – and approving applications from employees.

Those Ford employees wishing to participate in the scheme choose a course (or courses) with the assistance of local education advisors; the courses may be provided on- or off-site. There is no limit to the number of courses that can be taken under the scheme although the earmarked allocation made by Ford is GBP 200 (EUR 310) per employee. EDAP is separate and distinct from the company's existing training department, which continues to be responsible for training that is job-related. Activities supported by EDAP explicitly exclude training related to an individual's current job. Having selected their course, employees apply to the EDAP programme specifying the costs and the nature of their learning programme. Once authorised, EDAP provides employees with a credit that is passed by the employee to the training provider as payment. Training providers then invoice EDAP for payment of services provided. Whilst there is no 'voucher' per se, it is clear that the credit given to the employee is a 'quasi-voucher' denoting a specific sum of money to be spent on education/training. Individuals are able to supplement the voucher with additional private funds, if their training costs exceed Ford's allocation. The training is undertaken in employees' free time, so in this sense they also contribute to the costs.

On an annual basis, 35% of all employees participate in learning opportunities provided through the EDAP scheme (Ford EDAP, 1996). Employees have undertaken a diverse range of learning programmes ranging from academic studies at degree level to personal skills and health related programmes. Of those participating, 31% of employees applied to undertake educational courses, which vary from basic literacy and numeracy to degree level courses. A further 32% were involved in learning new skills such as bricklaying, car maintenance and cookery. An additional 15% of participating employees have undertaken health-related courses, taking classes in stopping smoking, weight reduction classes, and fitness improvement. The remaining 19% have taken up leisure or hobby interests. Since the programme started over 100 000 employees have undertaken a learning programme.

Ford's investment in the scheme is substantial. Every year each employee is offered the opportunity to undertake a learning programme worth GBP 200 (EUR 310), this amounts to an annual investment of almost GBP 2 million (EUR 3.1 million). Ford also funds information and support services. Since 1987, Ford has invested GBP 7.5 million (EUR 11.6 million), supporting the learning of their employees (Ford EDAP, 1996). The EDAP initiative has been widely commended. In May 1995, EDAP received the Individual Commitment Award from the Employment Department in recognition of their efforts. Ford is keen to disseminate its good practice and materials about the scheme have been distributed to over 1 000 other companies.



## 2.3.2 Evaluation

A recent review by senior management and trade unionists concluded that Ford EDAP had met its objectives and had a considerable impact on the employees and the organisation (Ford EDAP, 1996).

### 2.3.2.1 Individual benefits

Evidence suggests that employees have responded positively to the scheme, gaining a range of personal benefits, including:

- (a) the achievement of qualifications;
- (b) development of new skills;
- (c) improved confidence and motivation.

### 2.3.2.2 Organisational benefits

The development of the EDAP initiative has also positively impacted on Ford as they now have a workforce that is 'more motivated, educated and responsive' (Ford, EDAP, 1996).

The organisational benefits of the scheme have been summarised as:

- (a) improved confidence and self esteem of employees;
- (b) the transformation of relational climate of the work place;
- (c) transfer of learning to open learning, skills training and team work;
- (d) better on line results;
- (e) greater capacity to cope with change and development.

There is also some indication that EDAP provides an effective model for the attainment of lifelong learning targets such as the National Education and Training Targets outlined by the Confederation of British Industry (CBI, 1989). EDAP has increased participation in education and training among its employees and has been particularly successful with respect to those groups with traditionally low rates of participation such as individuals with low levels of initial education and those in manual occupations. At one of the Ford sites (Dagenham), for example, the participation rate for lower-skilled adults through EDAP is 42% as against a comparable national figure of 16% (Beattie, 1994).

Evaluations suggest that the financial assistance provided by EDAP was an essential or important factor in many employees' decision to participate in the scheme. For many this financial provision made learning activities affordable. In many cases the EDAP grant was seen as an entitlement which people wanted to take advantage of, otherwise they would be losing what was rightfully theirs. Other important factors contributing to the scheme's success have been identified as the employees' sense of ownership and control over the scheme, the presence of adequate and accessible training provision, together with the provision of independent and impartial information and support. These are now examined in the following sections.

### 2.3.2.3 Employee ownership and control

EDAP is separate and distinct from the company's existing training department, which continues to be responsible for training that is job-related. Learning activities supported by EDAP explicitly exclude job-related training and the company does not know what any specific individual is learning. As a result Beattie (1994) suggests that 'educational opportunities are provided with low levels of risk and threat. No demands or expectations are placed on participants who are encouraged just to try out a course'. Beattie (1994) refers to this as 'a liberal approach towards the support of a wide variety of learning activities ... without restrictive conditions in terms of completion or achievement'. This approach has been an important factor influencing participation in the scheme particularly among 'those who need the most encouragement' (Beattie, 1994). The employee sense of ownership of the scheme and choice under it is reiterated through the key roles union representatives occupy on the EDAP committees.

### 2.3.2.4 Adequate and accessible supply of provision

EDAP have taken a number of measures to ensure that the supply of education and training provision is adequate and accessible to its participants. Where demand is sufficient EDAP arranges for courses to be provided within the plant. Over a third of all courses undertaken by employees under the initiative are held on site in EDAP centres, which have been designed by local committees. Access to these courses and facilities are timed to match the work patterns of employees. Such arrangements mean that provision is accessible and convenient and that problems of transportation and time clashes are minimised.

EDAP also sought to overcome the barriers to employee participation and choice among other training providers. For example, at one Ford site (Dagenham), employees had difficulties in accessing provision at local colleges because of residency requirements and enrolment procedures. EDAP negotiated with local colleges to ensure that participants would all be accepted as local students regardless of their address of residence. In addition, enrolment procedures at some local colleges were modified to allow EDAP participants, many of whom were shift workers, to enrol by telephone or post. College representatives were also invited to the plant, providing course information and accepting enrolment on the spot. These developments removed the institutional barriers that had previously restricted the training choices and the participation of many employees.

### 2.3.2.5 The provision of independent and impartial information, guidance and support

Information, guidance and support are provided by local education advisors and the EDAP office. Local education advisors are education professionals who provide information on providers and their courses to Ford employees. Significantly, these advisors are employed not by Ford but by an education institution – the University of East London. This ensures that advisors have a very high level of independence, and are able to provide impartial information and advice.

'Not belonging to any of the three main interest groups s/he can provide the local committee with independent advice; and for the employees is a source of confidential advice and support, separate from the company hierarchy' (Beattie, 1994).

The EDAP initiative acknowledges employees' general lack of knowledge about the organisation and structure of education and training providers and admission to courses, and recognises that they might be diffident about approaching institutions for information or when faced with unfamiliar practicalities of applications and enrolment. To ease these difficulties, in addition to independent advisory staff, the EDAP office staff provides secretarial support to Ford's employees. Office staff liaise with providers on behalf of employees, and support employees undertaking the formalities of registration, enrolment and payment of fees.

Beattie (1994) indicates that EDAP did not give employees new reasons for participation in education and learning nor a new appreciation of the value and benefits of education, rather EDAP minimised the situational, institutional and dispositional barriers and disincentives to adult participation in education and training provision.

### **2.3.3 Summary**

In many ways the EDAP scheme can be seen as a model in the provision of employee education and training through a quasi-voucher system. Evaluations have highlighted both personal and organisational benefits. Benefits for the government in terms of promoting lifelong learning and increasing qualification levels have also emerged. The financial assistance provided by Ford was an essential or important factor in many employees' decision to participate in the scheme. The success of the scheme has been attributed to a range of different factors, including an adequate supply of training providers and the provision of independent and impartial information, guidance and support.

## **2.4 Other examples of training vouchers**

In this section of the report we report on other examples of training vouchers. We examine their use in the French Community of Belgium and in France. We then explore the experience of the USA.

### **2.4.1 Training vouchers in Wallonia (French community of Belgium)**

'Wallonia has insufficient opportunities for training, a problem which often exacerbates the discrepancy between skills acquired at school and labour market needs.' (FOREM (Cidoc), Le Magazine, 1999, p. 20).

According to FOREM, in 1996, small and medium-sized enterprises (SMEs) in the French Community of Belgium were investing below the Belgian average of eight hours of training per year per employee. Whilst large companies now provide more training, SMEs are

lagging behind. Given concerns about training provided in these firms, the Walloon Minister for Employment and Vocational Training proposed the 'training voucher' or '*chèque formation*' (see Le Magazine, 1999) which came into force in December 1998. It is operated through an issuing company (SODEXHO).

The purpose of the voucher is to make SMEs more aware of the need to invest in training in order to maintain competitiveness and to enable them to respond to technological change. In general terms the aims of the voucher are: to promote the training of those working in SMEs and to increase investment in training.

The training voucher scheme is targeted on commercial companies based in Wallonia with a workforce of less than 50. The firm's employees and the employer, whether she or he is the company manager or an independent self-employed person, are eligible for training under this scheme.

A wide variety of fields of training are covered – data processing, languages, marketing and exports – together with courses relating to more technical matters associated with the work of the enterprise. However, the Walloon Minister for Employment and Vocational Training may impose restrictions on the types of courses supported. Courses are held during normal working hours and taught by an approved trainer chosen from a list of 160 training institutions.

The face value of each cheque is BEF 1 200 (EUR 29.7). This rate was determined on the basis of an average wage cost per hour of BEF 800 (EUR 19.8) and an estimated training cost per hour of BEF 400 (EUR 9.9).

An SME can apply to purchase any number of training cheques up to a maximum of 400. The purchase value of each cheque to the SME is BEF 600 (EUR 14.9), in other words the SME pays half of the face value for the cheques. The government of the Walloon region of Belgium covers the remaining 50% of the costs. The cheques therefore act as a training subsidy for SMEs.

The cheque also acts as a method of payment between the trainee and the provider as on completion of training, the cheques are submitted to them. The cheques have to be verified by both the trainee and the provider before any payments can be made.

The training provider sends an invoice for the training both to the SME and the issuing company, the latter also receives the cheques that have been 'cashed'. The training provider is reimbursed for the training up to the cost-value of the cheques. The SME is reimbursed by the difference between the payment made to the training provider and the face value of the training cheque.

The Walloon region contributes 600 BEF (EUR 14.9) per worker per hour of training. This covers all or part of the cost, depending on the type of training involved (Le Magazine, 1999). Co-funding (50%) by the employer is the norm.

The training voucher scheme is very new. Nevertheless, by the end of June 1999, 612 firms had participated in the scheme and nearly 32 000 vouchers had been issued. The total cost of the cheques stood at just over BEF 38 million (EUR 0.9 million) of which the contributions by employers was approximately BEF 19 million (i.e. 50%).

A unit with responsibility for 'training cheques' has been set up by FOREM. This is responsible for coordination and for providing information to firms (this is the 'Cellule Chèque-formation' from whom full details of the training voucher scheme can be obtained).

#### 2.4.2 France

In France, there have been a number of initiatives at a regional level that involve the use of vouchers, known as 'chèques formation'. A selection of these schemes are outlined below.

In the *Limousin* region there are vouchers for information technology and language training. The trainee chooses the training provider him or herself from a list of approved providers (available at local employment agencies and other specified bodies). The option to choose the provider is one of the original features of the scheme. The regional council bears the cost of short training courses that previously had to be paid for by the trainee.

The regional council has a contract with each training provider that stipulates the conditions that must be adhered to for trainees with vouchers. Trainees complete evaluation forms that enable the regional council to collect their views of the quality of the training.

The training vouchers are available for different target groups:

- (a) job-seekers, if they have the support of a government adviser that the training is of relevance to their plan;
- (b) job-seekers under 26 years who have achieved a specified level of qualification and have obtained the support of a government adviser on the relevance of the training for their plan;
- (c) individuals undertaking an activity in the field of tourism, whatever their status;
- (d) employees of small- and medium-sized enterprises.

Applications are completed by an adviser or employer on behalf of the individual concerned. Cheques printed with social security contributions (where relevant) and the list of approved providers are then sent to the trainee.

The IT training voucher has a variable value corresponding to a training module for the use of one or more types of software – 21 hours for a first level of training, 14 hours for a higher level. The language training voucher corresponds to a module that lasts for 40 hours. In each case the training voucher is valid for six months from the date of issue.

In *Brittany*, there are a number of voucher schemes. One is known as '*chèque FORCE*' (*Formation Reclassement Conduisant à l'Emploi*). Given the very specific training needs of job-seekers who need re-training, the region of Brittany decided to create an individual right to training in the form of a *chéquier formation*. This is composed of up to ten modules of 40 hours of training of which one must be devoted to new technologies. The voucher is



given after a period of evaluation and orientation for the individual. It is up to the trainee to negotiate his or her training programme with the training providers authorised to receive vouchers.

The voucher thus links training with the return to work and also empowers the individual trainee to manage his or her own training. The intention is that the individual will be motivated to succeed given that the itinerary was set up to meet his or her needs with their active participation. The *chèques FORCE* have enabled over 70% of beneficiaries (around 4 000 people in 1998), to find a job as a result of their training (see *Région Bretagne*, n.d.).

In the *Ile-de-France* region there are also vouchers for training in micro-computers (*le Chéquier-Micro*) for job-seekers. This is a modular form of training lasting between 12 and 90 hours divided into courses and workshops. It takes place at the end of the day, in the evening or on Saturdays in training centres under contract to the regional council of the *Ile-de-France*. Individuals can choose the training provider themselves. The training programme comprises an evaluation of the individual's competences and needs, modules to initiate him or her to micro-computing, training and workshops to learn applications such as word processing, tables and databases.

There are also language training vouchers in the *Ile-de-France* (*le chéquier langues*). This is a programme of individualised training in four languages, German, Italian, English and Spanish. Approximately 20 000 individuals have benefited from this programme. Again the scheme is for job-seekers and each trainee must be able to justify a vocational objective requiring training in a foreign language. If this objective is verified, an adviser gives the individual a registration dossier and a test is taken to determine the trainee's level in the language and to decide the length and content of his/her training plan. The individual chooses the modules that suit him/her (in terms of training providers, dates, times, learning in a centre or distance learning) and the booklet of vouchers is sent to the trainee's home.

The voucher is for personal use and is valid for one year. The first voucher must be used within three months after the vocational evaluation has been carried out. The voucher is equivalent to 30 hours of training. The voucher booklet (*chéquier langues*) consists of several vouchers and guarantees a period of training adapted to an individual's training plan. At the end of the training a final evaluation is carried out at a specialist language centre. An individual may also register for language examinations such as the European certificate for languages or the examinations of the European chambers of commerce.

In Burgundy, there is a voucher for apprenticeships (*le chèque apprentissage*). The objective of the scheme is to increase the chances of success for candidates for the *certificat d'aptitude professionnelle* (CAP) and the *brevet d'études professionnelles* (BEP) by a specific form of support. The scheme can benefit all apprentices in the first year who have encountered difficulties in general education (French, English, mathematics, physics) and/or in technical subjects such as technology, or those who wish to study German during their apprenticeship.



The apprenticeship voucher consists of 30 vouchers each of 3 hours, making 90 hours. Each voucher is worth FRF 78 (EUR 11.9) for 3 hours [FRF 26 (EUR 4) per hour], making a total of FRF 2 340 (EUR 356.7) in total paid for by the regional council. In Burgundy, there is also a training voucher for job-seekers.

### **2.4.3 Training vouchers in the USA**

In the US, the use of vouchers in vocational education and training has not generated the immense debate that has surrounded general education. This is changing, however, as a result of several pieces of recent legislation introduced to provide employment and training services through vouchers and voucher-like mechanisms. These include the 1997 Employment, Training and Literacy Enhancement Act, the 1998 Ticket to Work and Self-Sufficiency Act and most notably the 1998 Workforce Investment Act (WIA).

The WIA encompasses the major employment and training programmes in the US for individuals with specific labour market needs. The Act requires the use of 'Individual Training Accounts' for most training for economically disadvantaged adults and dislocated workers. The latter category includes workers who have become unemployed as a result of a plant closing; long-term unemployed workers with limited opportunities for re-employment in the same occupation; and self-employed individuals who are unemployed because of general economic conditions or natural disaster (e.g. farmers and ranchers).

In line with the reinventing government movement in the US (Osborne and Gaebler, 1992) the Act is guided by the principle of maximising consumer choice in the provision of public services and eligible individuals will receive vouchers that they will use to select and pay for skill-based training. The Act also outlines a number of 'core services' which must be provided to participants. These include an initial assessment of skill levels, aptitude, supportive services such as childcare and commuting assistance, labour market information, career counselling and information about training provider work-placement rates.

Although it is too early for any evaluation of the effectiveness of the voucher provisions to have taken place, preliminary comment has been given on the basic components of the legislation (Barnow, 1998). This has drawn attention to the extent and nature of consumer choice under the new provisions. In particular, Barnow has focused on the likelihood that consumer choice will actually become provider choice, as they cream the most 'employable' applicants to gain favourable positions for their published work-placement rates. Performance in this respect will be crucial to training providers; those performing poorly will lose their eligibility to provide services. The desirability of unrestrained consumer choice has also been questioned particularly in those situations where a participant chooses to enrol in a program where he or she is unlikely to succeed, or in an occupational field for which there is only limited demand in the labour market.

In addition to new national employment and training legislation in the US, there are a number of programmes operating at a state and local level which utilise vouchers in the provision of education, training and employment services. In a comprehensive review of the use of vouchers in targeted training programmes in the US, Barnow (1998) concludes

the empirical evidence is mixed. For programmes targeted on the economically disadvantaged he suggests that previous studies provide only negative evidence of the effectiveness of vouchers. The Counselling and Education Subsidy Program (CESP) is among the cases outlined. Under this programme, implemented as part of the 1970-78 Seattle/Denver Income Maintenance Experiments (SIME/DIME), all participants in an experimental treatment group received counselling. Two sub-groups also received a voucher valued at either 50% or 100% of the cost of any education or training undertaken.

Evaluations indicated that the provision of subsidies increased participation in education and training. However, it was also found that training led to either a reduction or to no change in subsequent earnings (Dickinson and West, 1983). Barnow concluded:

'The SIME/DIME programs were designed to maximize freedom of choice for participants. They offered non directive counselling and a wide range of educational opportunities ... such programs in general are inappropriate for low income individuals, causing at least some of them to form unrealistic expectations about their labor market prospects and to pursue overly ambitious goals (Barnow, 1998, p. 16)'.

On the basis of this and other case study evidence, Barnow concludes that voucher programmes in the US that have had positive impacts have been characterised by three main features. First, skill/aptitude assessment and counselling of participants has been provided to determine appropriate forms of training and second, providers have been screened to ensure the quality of training provided and appropriate placement rates. Finally, he concludes that whilst vouchers alone are insufficient to guarantee that training programmes are effective, training programmes that do not take account of the preferences of participants in the way that vouchers do, are doomed.

Thus in line with findings from elsewhere, the evidence from the US suggests the effects of vouchers in the field of training is determined by the specific design of voucher programmes and the services which accompany them.

## Chapter 3 Discussion and conclusions

### 3.1 Discussion

This dossier has examined the ways in which voucher and quasi-voucher mechanisms have been used within the EU and US to fund or part-fund post-compulsory education and training. Chapter 1 provided a discussion of the policy context surrounding the use of demand-side financing and voucher mechanisms and explored the rationale and distribution mechanisms for demand-side financing policies before examining the rationale, principles and operation of voucher and quasi-voucher systems.

Demand-side funding mechanisms can transfer funds to the consumer or to the education and training provider. Vouchers combine both these approaches. In essence, a voucher transfers purchasing power to the consumer, without transferring money. Funds for the training provided are then transferred, on a per capita basis to the training provider once the voucher is submitted to the funding body/agency.

A voucher is, in effect, a contract, providing an individual or an organisation with purchasing power, without the actual transfer of money. With a pure voucher there is an earmarked sum of money that is provided for specified education and training purposes. An individual receives a coupon with a financial value that he/she then exchanges for education or training. Quasi-vouchers deviate from this model – for example, they may not be in the form of a coupon and may not have a financial value attached. Principles underpinning the use of voucher and quasi-voucher schemes vary according to the type of education and training and target groups being supported.

Where there is what we have termed a 'government guarantee' (as in initial vocational education and training), the principles of a voucher scheme are to increase consumer choice, personal advancement, promotion of competition and access to private education and training providers. Where the government part-funds education and training, a different set of factors comes into play: stimulating the demand for training, increasing investment in training, overcoming market failure and making the market fairer. With privately funded education and training, the principles are likely to include: increased motivation of staff, improving industrial relations, improved productivity, improved efficiency and better retention of staff.

In voucher schemes, target groups also vary – young people in post-compulsory education or training, employees who wish to undertake continuing vocational training, adults who are unemployed and so on. In designing the operation of a scheme, key parameters include whether the voucher can be supplemented or not, the format of the voucher, the target group, how funds are paid to the training provider, whether the voucher is portable to other regions in a country, whether there is a higher value for specific target group and whether non-training costs (such as transport costs) are included.

Prerequisites of voucher schemes if they are to be equitable, efficient and effective include the provision of information, advice and guidance, the regulation of training providers, a choice of providers and a system to administer the scheme. A number of possible problems are identified and discussed. Finally, recent developments in relation to demand-side financing mechanisms that have some similarities with vouchers are highlighted.

Chapter 2 provides case studies giving details of the way in which vouchers and related schemes have been introduced in the UK, Austria, Belgium, France and the US. The schemes varied considerably in terms of the type of training delivered (initial vocational education or training, adult continuing vocational or non-vocational training), the target groups and so on. Whilst in some cases we found pure vouchers, in others we found quasi-vouchers and yet others demand-side financing mechanisms with some attributes of vouchers.

In the various countries, different models have been developed. In the UK what was originally construed as a 'pure voucher' model for young people in training (youth credits) was not always implemented as such and recent developments have resulted in young people being given a learning card. This is an entitlement to learning but is not a necessary prerequisite to undertake post-compulsory education or training. Whilst this may be considered as a voucher, it does not combine both the direct and indirect features of demand-side funding described earlier – young people are not obliged to use it and no exchange or transfer is necessary for the training provider to receive funds for training provided. The new individual learning accounts are a quasi-voucher system where there is a guarantee of co-funding by another agency (government or employer) if the individual concerned contracts to save funds for learning purposes. In this case, at least in the developmental stages, funds have been provided in either voucher or cash formats.

In Austria, there are training accounts that co-fund various types of adult training, but instead of providing funds in advance of training undertaken, funds are paid in arrears. Thus, although there is demand-side financing, the purchasing power apparent with vouchers and quasi-vouchers is not present.

In the French Community of Belgium, training vouchers are available on a co-funding basis for SMEs to fund training for their employers. Training vouchers are also used in parts of France; in this case, they are targeted very specifically – for example on job-seekers, on certain fields of training and on those working in SMEs.

We can therefore see a divergence between schemes that involve the use of vouchers and quasi-vouchers (French Community of Belgium, France and the Ford EDAP scheme) and those that involve the use of cash or vouchers (individual learning accounts) or cash paid in arrears (Austria). Interestingly, in spite of the potential fraud risk with cash payments in advance of learning having taken place, there may be some advantages over vouchers in terms of a reduction in transaction and administrative costs.

We now turn to the questions posed in Chapter 1 of this report and seek to address them with evidence from the case studies described in Chapter 2.

### **3.1.1 To what extent are 'pure' or 'quasi' vouchers used? What is their format?**

The case studies indicate that 'pure' vouchers with a paper coupon are found in a minority of cases, notably in parts of France and England/Wales. Interestingly, in neither of these cases is the term 'voucher' used, rather, in England/Wales the term 'training credit' was used, whilst in France and the French Community of Belgium (Wallonia), the term '*cheque*' is used. It is important to be aware that the linguistic diversity and underpinning concepts may not be identical in different cultural contexts.

Voucher systems characterised by paper coupons are likely to incur higher transaction and administrative costs than systems in which funds are transferred electronically. Coupons, however, may be a more effective format in terms of the stimulation of consumer behaviour and motivation to train on the demand side of the training market. Quasi-vouchers of various types are more common. In parts of England/Wales 'smart cards' were used. In the EDAP private sector scheme in the UK a signed form acted as a voucher. In Austria, an advance notice certifying payments acted as a kind of voucher.

### **3.1.2 What is the currency of the voucher?**

A nominal monetary value to the voucher was given in parts of England/Wales. In France, the voucher gives a value in terms of the amount of training the voucher pays for. The same phenomenon was also found in parts of England/Wales. In Wallonia, there is a real monetary value to the voucher. In Austria, hours of training are also important in the context of some of the training accounts that operate.

### **3.1.3 What are the main aims of voucher and quasi-voucher schemes?**

The aims of the various voucher and quasi-voucher schemes vary considerably. In the case of youth credits in England and Wales the aims were to improve motivation to learn and empower the individual. Empowerment of the individual is also important in France. In the case of Wallonia, the aim was to encourage investment in training by SMEs. In Austria, the stimulation of demand for training was also important in the context of lifelong learning. All the schemes were designed to improve skill levels of the target groups.

### **3.1.4 Who are the target groups for voucher and quasi-voucher schemes?**

The target groups in the case studies included young people who were undertaking work-based training (England/Wales), employed and unemployed adults (Austria), unemployed individuals (France), individuals who worked in specific sectors (e.g. tourism, France) and individuals who wish to train in specific sectors (Austria, France). Women returners were a specific target in Austria. In the Wallonia region of Belgium, the target group was workers in SMEs.



The positive externalities or social benefits associated with education and training are likely to be greatest in voucher schemes which are targeted towards socially excluded groups who are vulnerable to adverse social and economic conditions such as unemployment and poverty (McMahon, 1998). In addition, targeted voucher schemes reduce the deadweight costs whereby existing expenditure on training by individuals and/or employers is substituted with public funds. Targeting, however, may also increase the likelihood of stigmatisation, which may in turn inhibit voucher take up, and the individual's motivation to train under the scheme. Universal systems may have political attractions.

### **3.1.5 Are vouchers and voucher-like mechanisms targeted on specific fields of training?**

The case studies indicate that vouchers and voucher-like mechanisms are frequently targeted on training in information and communications technologies and foreign languages (e.g. Austria, Wallonia region of Belgium, France). Other fields of education/training are also targeted – for example, tourism in parts of France, marketing or exports in Wallonia. In schemes that fund training in a variety of fields of education or training, voucher values may have to be set at different levels in order to reflect the different costs of training in different sectors. This may be achieved through the creation of a tariff system whereby training schemes are allocated to a tariff according to the field of education or training. The tariff in turn would determine the voucher value.

### **3.1.6 Can vouchers be supplemented?**

In the case of Ford, the training quasi-voucher can be supplemented. This does not appear to be the case in France and was not the case in the UK training credits scheme. In Austria, training accounts require co-funding by the individual. In Wallonia, this is also the norm. The supplementation of vouchers may have equity implications in terms of inequality of choice, as affluent individuals or employers who are able to 'top up' their voucher may have a greater choice of training schemes or suppliers than those unable to do so. The facility to supplement vouchers, however, may be an effective means of leveraging private investment from individuals or employers. Notwithstanding this, the need for, or level of, individual contributions could be tailored to individuals' means to ensure that disadvantaged groups are not excluded from lifelong learning opportunities.

### **3.1.7 Are vouchers of a higher face value for disadvantaged groups?**

In the UK, trainees with special training needs received vouchers with a higher face value. Flat rate voucher values may encourage cream skimming behaviour among training providers. As Glennerster (1996) notes:

'Economic theory suggests that given a flat value voucher, institutions will become segregated, competing to get rid of the most costly and difficult ... to teach'.



This may be minimised if training providers are required to adhere to transparent admissions policies. Alternatively vouchers may be given a higher face value in the case of disadvantaged groups although this is likely to require a system for evaluating the needs of different individuals.

Different voucher values may also be a consideration in those schemes that cover a large geographical area, as the costs of supplying similar types of training, may be higher in some regions/areas than in others. This would be a particular issue when different countries are involved.

### **3.1.8 Who are the beneficiaries of vouchers and voucher-like mechanisms?**

In some countries – such as France – the vouchers are very precisely targeted on disadvantaged groups. The only research that has examined the characteristics of the beneficiaries has been carried out in Austria, where beneficiaries have differed according to the design of the scheme.

### **3.1.9 What sort of information, advice and guidance is provided?**

In France and the UK (both the private sector and the public sector case studies) there were systems in place to provide information, advice and guidance. The extent to which the information is accessible and unbiased has been called into question in the UK youth credits initiative. The Ford EDAP scheme provides a 'good practice' model. The presentation and publication of such information is an issue, which requires consideration (see West & Pennell, 1997; Felstead, 1998).

### **3.1.10 What sort of regulation of providers exists?**

In all of the case studies, training providers are regulated. This is the case with both public and private schemes. Adherence to the same systems of regulation and inspection procedures ensures a fairer basis of competition among training suppliers. It also allows for quality to be assured, which is particularly pertinent when public funds are involved.

### **3.1.11 Is there authentic choice under the voucher schemes? Have new training providers entered the market? Is there a competitive market structure?**

The extent of authentic choice varies according to the scheme. However, concerns have been raised about the failure to 'free up' the supply of training providers in several of the case studies (e.g. Austria, England/Wales). The likelihood of geographical monopoly is reduced if the transportation costs/provision is included in the voucher scheme (and subsistence costs in the context of any Europe-wide scheme). Incentives that encourage users to act on the basis of consumer interests rather on other bases (for example, previous practice) may also foster the development of a competitive market structure.

### **3.1.12 To what extent is 'deadweight' a problem?**

The Austrian case study highlights the fact that some individuals would have undertaken the training without the incentive of the voucher-like mechanism. In the case of the Ford EDAP scheme this appears to have been less of an issue. As has been highlighted previously, deadweight costs may be minimised by schemes that are targeted on individuals who would not otherwise participate in training.

### **3.1.13 Are there implications for equity? Are there incentives to cream skim? Are there disincentives?**

Problems associated with cream skimming have been highlighted in the case of the UK youth credits initiative. It should be remembered, however, that the evaluations in the UK were more far-reaching than those available for other countries/regions and this is unlikely to be unique to the UK. In some of the case studies, vouchers have been specifically targeted on disadvantaged groups (e.g. France, some schemes in Austria, the USA). In the case of Wallonia, funds are targeted on SMEs that do not, in general, provide as much training to their employees as larger enterprises. Voucher values that are differentiated according to individual needs and the adherence to equitable admissions criteria may minimise cream skimming among training providers.

### **3.1.14 What are the administration/transaction costs of voucher schemes?**

The evaluations that have been conducted have not addressed this issue. The Austrian experience shows that, amongst others, the means to reduce administration costs include relatively transparent admission criteria and reimbursement schemes transferring funds (already paid by the trainee) directly to the individual's bank account.

### **3.1.15 How successful have voucher schemes been?**

It is not easy to evaluate the success of voucher schemes in terms of the extent to which they can help to generate a more highly skilled workforce, increase the motivation of individuals to undertake training or encourage a culture of lifelong learning. One of the reasons why it is difficult to evaluate such schemes generically is that they have been designed with different objectives in mind. The continuation of many of these schemes suggests that they are considered to be effective in meeting the needs of the funding body – be it government or enterprise. However, it is interesting to note that in the UK a voucher system has been replaced by a quasi-voucher 'entitlement' to education or training, suggesting that an actual voucher with a face value is not in fact necessary.

### **3.1.16 Are there essential prerequisites of voucher schemes?**

There are of course, certain prerequisites of voucher schemes. Individuals who wish to undertake post-compulsory education or training must be provided with accessible, unbiased information to enable them to make informed choices. They may also need independent guidance or counselling to assist them in making their choices. This presupposes that there is an adequate supply of training providers from which an individual can choose. In terms of both the provision of information and the supply of training providers the evidence from the case studies suggests that there are shortcomings in the schemes that have been evaluated.

### **3.1.17 What is the potential for using voucher and quasi-voucher schemes to promote lifelong learning?**

Voucher and voucher-like schemes have considerable potential to promote lifelong learning. This is clearly demonstrated in the case studies reported. In the UK, the youth credits scheme vouchers and quasi-vouchers were used for initial vocational education and training. In the Ford EDAP schemes they are for those in work to undertake learning. With individual learning accounts in the UK and training accounts in Austria, the principle of co-funding continuing education and training has been introduced. In theory, vouchers or quasi-vouchers could be used throughout life as advocated by Oosterbeek (1998) and proposed by the Hans Böckler Foundation Committee of Education Experts (1998).

### **3.1.18 What is the potential for using voucher schemes and other demand-side financing mechanisms to increase investment in training?**

Again, there is considerable potential for voucher schemes and demand-side financing mechanisms more generally to increase investment in training. The fact that private companies are investing additional resources in training already suggests that they feel there are benefits. Governments are also promoting demand-side financing mechanisms (usually involving co-funding) to stimulate investment in training. Individual learning accounts are one such example. Evaluation of new initiatives of this type will be essential in order to gauge the impact of the funding mechanism on investment in training by both individuals and enterprises.

## **3.2 Concluding remarks**

The evidence presented in this paper indicates that voucher and voucher-like schemes are a highly flexible mechanism that can be designed differently to meet a diverse range of economic, social and political objectives. The eventual design of any voucher or voucher-like scheme is likely to be a product of policy makers' objectives and priorities, with regard to a wide range of issues including costs, equality of opportunity and the maximisation of social benefit.

This process is likely to involve a number of trade-offs. For example, whilst a voucher scheme utilising advancements in information technology based on the electronic transfer of money or notional costs may be associated with reduced transaction costs, a scheme based on 'paper' coupons may maximise the motivation to undertake training or learning among the target population.

The flexibility and versatility of voucher schemes is apparent. They may also have other merits. First, in the case of publicly-funded education or training, a voucher or voucher-like system can be targeted on specific groups or fields of training or sectors, so directing funds where need is perceived to be the greatest. Second, a voucher scheme can also, in theory, result in education and training becoming more responsive to the needs of the individual (or other user) of the voucher.

It is important for voucher and voucher-like schemes to be carefully designed according to an established set of policy objectives and priorities. Once designed, such schemes offer an important means of creating a dynamic system of education, training and lifelong learning which is responsive to the needs of the individual, the economy and society at large.

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*Dr Anne West, Ms Jo Sparkes,  
Dr Todor Balabanov, Ms Sarah Elson-Rogers*

CEDEFOP Dossier

Luxembourg: Office for Official Publications of the European Communities

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The European Commission's White Paper *Growth, Competitiveness and Employment* (1994) refers to training vouchers, noting that schemes modelled to suit individual European Union Member States' cultures should be examined and developed.

This discussion report is the outcome of a pilot study to assess the use of vouchers to fund different types of training within the European Union. It discusses issues related to the use of vouchers and voucher-like mechanisms to fund or part-fund individuals to participate in vocational education and training (VET). The policy context in which demand-side financing mechanisms and vouchers for post-compulsory education and training have been introduced is discussed, and the rationale, principles and operation of voucher and voucher-like mechanisms are presented. Case studies, most of which involve public funding, show how voucher mechanisms have been introduced and how they operate in several countries. The conclusions indicate that voucher and voucher-like schemes can provide a flexible mechanism to meet a wide range of VET funding objectives.

**Dr Anne West, Ms Jo Sparkes,  
Dr Todor Balabanov, Ms Sarah Elson-Rogers**


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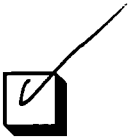


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